

McFarlane Expected to Testify Reagan Ordered Contra Aid



Robert C. McFarlane

By Joel Brinkley
New York Times Service
WASHINGTON — Robert C. McFarlane, the former national security adviser, is expected to testify on Monday that President Ronald Reagan ordered the national security staff to arrange support for the Nicaraguan rebels after Congress rescinded aid in 1984, according to officials and associates of Mr. McFarlane.

But they said that Mr. McFarlane would assert that the president did not specify how that was to be done. And he will say that neither he nor Mr. Reagan directed the National Security Council to break the law.

Mr. McFarlane is scheduled to be the next witness before the joint House-Senate committee investigating the Iran-contra affair.

It was unclear how the president intended to have his administration maintain support for the contra-

as the Nicaraguan rebels are known, while remaining within the law.

[During a trip to Alabama on Sunday, Mr. Reagan declined to answer a question about Mr. McFarlane, saying, "Let's just for a few moments decide there's enough controversy and we'll leave it in Washington this day." The Associated Press reported, Mr. Reagan delivered the commencement address at Tuskegee University in Alabama.

[The White House spokesman, Martin Fitzwater, also declined to comment Sunday on McFarlane's testimony, saying: "Wait until the testimony tomorrow. We'll have to wait and see what he says."

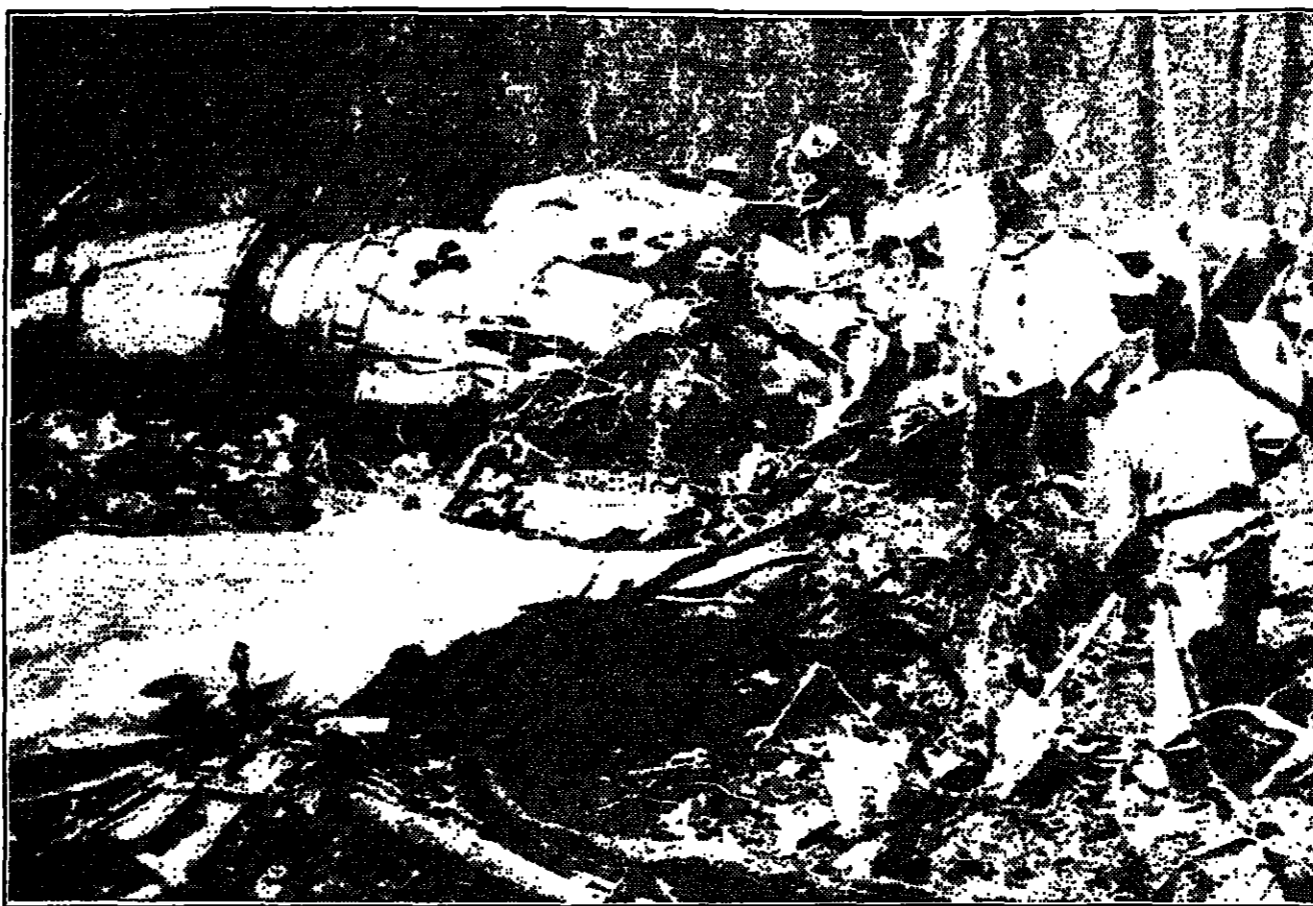
[Senator Daniel K. Inouye, chairman of the congressional panel, said Sunday that it would "clarify the president's image" if it were confirmed that Mr. Reagan did give a blanket order that his national security staff arrange help for the contra without saying how it should be done. Mr. Inouye, Democrat of Hawaii, was speaking on an ABC television interview program.

One of the key mysteries puzzling investigators of the Iran-contra affair has been whether Lieutenant Colonel Oliver L. North, a former national security aide, and other officials set up the elaborate secret program to aid the contra on their own initiative or on orders from the president.

Mr. McFarlane's testimony is expected to lend support to the growing belief among investigators that the president was far more aware of the program than he has admitted.

Mr. Reagan has maintained that Mr. North was operating beyond his authority. In March, for example, Mr. Reagan said he was "angry" about "activities undertaken without my knowledge," including "secret bank accounts and diverted funds."

Mr. McFarlane is not expected to say that Mr. Reagan specifically directed Colonel North and others to set up the secret bank accounts, dummy corporations and the elaborate air supply operations that



Workers sifted through the wreckage Sunday of a Polish airliner that crashed near Warsaw.

Poles Find Recorder in Crash Fatal to 183

The Associated Press
WARSAW — Authorities searching the wreckage of a Polish jetliner on Sunday examined the flight recorder for clues about why the plane went down, killing the 183 people on board, officials reported.

The charter flight of the Polish airline LOT, bound for New York, crashed Saturday in a wooded area three miles (five kilometers) from the runway at Okęcie International Airport, on the outskirts of Warsaw.

The pilot was trying to return to make an emergency landing after reporting engine trouble. The Polish Foreign Ministry said that 17 persons holding U.S. passports were among the dead.

Stefan Pozniak, a spokesman for

the Transport Ministry, said the flight recorder had been found in the wreckage and was being analyzed. A statement issued by the Civil Aviation Board said it was too early to speculate on the reasons for the crash.

Police sealed off the crash site as representatives of a special government commission and forensic crews searched through the debris. A police spokesman said: "It's difficult to say how many bodies have been recovered because they are lifting parts of the plane now and there is just a mass of bodies" underneath. Most of the bodies, he said, were "simply unidentifiable."

■ Worst Crash in Poland
Jackson Diehl of The Washington Post reported from Warsaw: The accident, the worst in Polish

civil aviation history, occurred at 11:12 A.M. local time Saturday as the Soviet-built Ilyushin 62M jet was returning to Okęcie 54 minutes after takeoff. Authorities said two of the jet's four engines had failed.

The plane cut a 200-yard-wide (180-meter-wide) swath through the dense woods before striking the ground and exploding, killing the 172 passengers and 11 crew members. Parts of the forest were set on fire.

"There was a tremendous explosion, then thick black smoke came up from the ground," said Czeslaw Buchalski, a witness. "You could feel the blast. It was a frightening thing."

Witnesses said one of the plane's engines was burning as the jet descended. They said the plane ap-

peared to swerve as the pilot, flying at very low altitude, avoided inhabited areas.

Officials said the jet had traveled 125 miles northwest from Warsaw before the pilot began his return.

The news agency PAP reported that besides the 17 passengers holding U.S. passports, 145 were Poles, including the crew, and 21 were Polish citizens permanently residing abroad. A U.S. Embassy official said most in the latter group probably were U.S. residents.

State television interrupted its programming to report on the accident, and news broadcasts Saturday night showed graphic film of the crash site, which was littered with charred, mutilated bodies.

See CRASH, Page 2

Adultery Emerges As Issue

U.S. Candidates Face Questions On Private Lives

Compiled by Our Staff From Dispatches
WASHINGTON — Gary Hart's departure from the U.S. presidential race because of reports of womanizing has made adultery an issue in the campaign, and candidates faced questions about their attitudes Sunday in televised interview programs.

The Miami Herald, meanwhile, reported that one of its photographers apparently had corroborated one part of Mr. Hart's version of events at his Washington townhouse on May 1 and 2. The report called into question a key portion of the newspaper's initial account.

Senator Joseph R. Biden Jr., Democrat of Delaware, was asked on the ABC program "This Week with David Brinkley" if he would give a reply if asked if he had ever committed adultery.

Mr. Biden said he would answer, "It is none of your business."

Senator Albert Gore Jr., Democrat of Tennessee, who has already declared for the 1988 race and appeared on the same program, said he agreed. Mr. Biden is expected to formally announce his candidacy soon.

Mr. Hart, a former Democratic senator from Colorado, abandoned the campaign Friday following reports that a woman spent the night in his Washington townhouse the previous weekend while his wife, Lee, was in Denver.

Mr. Biden asserted that the news media "got a little out of hand." But he added, "We the candidates cannot measure what is good taste and bad taste on our part."

Representative Richard A. Gephardt of Missouri, a Democratic candidate, was asked on NBC's "Meet the Press" whether he would

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Genetic Substance Linked to AIDS Risk

By Lawrence K. Altman
New York Times Service
NEW YORK — British scientists have found the first evidence of individual genetic differences in susceptibility to infection with the virus that causes AIDS.

The researchers identified a form of an inherited protein that appears to reduce vulnerability to infection with the AIDS, or acquired-immune deficiency syndrome, virus and to slow the development of the disease among those who are infected.

Examining blood samples from homosexual men, some of them AIDS virus carriers and some not, the scientists also found that people with a different genetic variant of the same protein were highly susceptible to AIDS infection and disease.

The findings are the first clue to possible inherited differences in susceptibility to the AIDS virus infection. Dr. Anthony J. Fincham, and his research team, said in a report in The Lancet, a medical journal published in London.

Experts in AIDS and in genetics called the report of immense potential significance for the understanding of how the AIDS virus attacks the body and how it might be countered.

Dr. Robert C. Gallo, a biologist at the National Cancer Institute and a pioneer in AIDS research, said he expected the findings to

open an important new avenue of research for studying the disease and possibly for developing better treatments for the fatal disorder, which cripples the immune system.

Dr. Stephen P. Deiger, a geneticist at the University of Texas Health Sciences Center in Houston, who is an expert on the protein, agreed with Dr. Gallo. Dr. Deiger predicted that the most important use of the finding would be to help explain the biological mechanisms by which the AIDS virus attacks the body.

The scientists found striking differences in susceptibility to AIDS according to the specific variants that individuals carry of a protein called Cc, for genetic variant component. All people have the protein in their blood and on cell surfaces. But they inherit it in one of six combinations of three major genetic subtypes.

The finding is preliminary because it is based on the study of 375 people.

Dr. Fincham, who is attached to St. Mary's Hospital Medical School in London, said that further research was necessary to explore the role of the protein variants in protecting people from AIDS infection or disease, or in rendering them susceptible to the virus. He said he suspected that scientists would identify other genetic traits

See AIDS, Page 3

Kiosk Breakthrough On Electricity

NEW YORK (AP) — Researchers at IBM have found a way to make superconductors carry 100 times as much current as before, eliminating a major technical obstacle to widespread use of the new materials, it was disclosed Sunday.

The discovery demonstrates the possibility of using new superconducting materials for things such as improved computer chips and power transmission lines, IBM said. Superconductors lose all resistance to electricity below a certain temperature.

Special Today

Personal Investing takes a look at the volatile U.S. bond market, hectic days for gold traders, and hard times for banks and brokerages. Pages 7-11.



Prime Minister Margaret Thatcher met with advisers on when to call an election. Page 2.

SPORTS

■ The Atlanta Braves, on an eight-inning pop-up Sunday, swept a series with the New York Mets, 8-7. Page 17.

BUSINESS/FINANCE

■ The Soviet Union is buying its first shipment of U.S. wheat under a new program. Page 13.

8 IRA Dead Are Mourned By Marchers

Compiled by Our Staff From Dispatches
BELFAST — Several thousand supporters of the outlawed Irish Republican Army marched Sunday through Belfast to mourn eight guerrillas shot and killed in an ambush Friday night by British security forces.

The parade had been organized in memory of 10 IRA prisoners who died of self-imposed starvation in the Maze prison in 1979, but was overshadowed by the killing of the eight IRA guerrillas in a gun battle in Loughall, County Armagh, after they attacked a police station in the village.

Meanwhile, a senior member of the IRA told Reuters that the organization could try to assassinate British political leaders to avenge the deaths of the eight guerrillas. "People in Britain with explosives are ready to go into action," the IRA member said Saturday. "British leaders shouldn't sleep easy in their beds."

The IRA gunmen were killed in an ambush set by commandos from the Special Air Service regiment, which acted on information from an informant.

It was the worst single setback to the IRA in its campaign to remove the British from Northern Ireland. The police said a motorist also was killed and his passenger critically injured during the 10-minute battle. They said two policemen and a civilian were wounded.

The IRA gunmen rammed the gates at the Loughall police station, using a bulldozer with a bomb attached to the machine's scoop. The bomb leveled part of the station. A group of masked gunmen then jumped from a van to attack the station but were ambushed by the security forces.

Police sources said that undercover agents had been tracking local IRA guerrillas for six weeks and had followed them when they went to an abandoned farmhouse to pick up the bomb used in the attack.

After the attack began, two of the guerrillas were shot and killed in the van and the others were

See IRA, Page 2



The temporary Holocaust memorial outside the Lyon city hall on Sunday.

Barbie Trial's Emotional Eve Groups Honor Nazis' Victims, Countering Rightists

By Julian Nundy
International Herald Tribune
LYON — Two demonstrations honoring the victims of Nazism were held here Sunday on the eve of the trial of Klaus Barbie.

More than 40 lawyers representing 115 victims of World War II repression in the Lyon area traveled en masse to sites where Barbie is alleged to have committed atrocities. Barbie's trial on charges of crimes against humanity opens Monday.

About 200 Jews demonstrated at a makeshift monument, modeled on Jerusalem's Yad Vashem memorial, that was set up opposite the city hall in memory of the Nazi extermination of Jews.

The two demonstrations, organized long in advance, came after a small group of young ultra-rightists protested the trial of Barbie, 73, a former Gestapo captain in Lyon.

On Saturday, at the end of a traditional annual march in memory of Jean de Am, a group of black-shirted youths shouted slogans in support of Barbie, who faces a maximum life sentence for his part in the Nazi occupation.

While witnesses emphasized that the rightist marchers numbered only a few dozen, Georges Bastelica, the Lyon police chief, said he was considering asking for extra reinforcements from outside the city to ensure security.

"Two weeks ago, I was not worried," Mr. Bastelica said. "But now I am. I am afraid of extremism."

About 300 police officers had already been sent to Lyon to help maintain security. Of these, 20 will form Barbie's personal bodyguard during the trial, which is scheduled to last through June.

Because of his age, the Lyon courthouse has been equipped with a special area where Barbie can receive medical attention. Only a court doctor and his lawyer will have access to him there.

At the trial, Jacques Vergès, the defense lawyer, has threatened to confront the French with their record of collaboration with the Nazis, turning the trial into a traumatic experience for the whole nation.

All last week, the French press was filled with witnesses' accounts of wartime confrontations with Barbie. Mr. Vergès has described the media attention as an atmosphere of "lynching."

On Wednesday, the state prosecutor in the trial, Pierre Truche, appealed for calm and issued a reminder that the accused, who was sentenced to

See BARBIE, Page 5

Divisive Question of U.S. Trade Deficit Confronts Nations at OECD Meeting

By Carl Gewirtz
International Herald Tribune
PARIS — The specter of the enormous U.S. trade deficit will dominate the meeting in Paris this week of senior government officials of the 24 leading industrialized countries grouped in the Organization for Economic Cooperation and Development.

One way or another, they realize,

U.S. will press to reform price supports in world agriculture at OECD meeting. Page 13.

the U.S. trade deficit now running at \$170 billion a year will be cut to a more manageable level. The only question is how. Through a global adjustment of economic policies in which all major countries participate, or in a brawl among them that will probably wreck the postwar environment of multilateral cooperation?

That, in brief, is the issue that policy makers must resolve in their series of spring meetings that will culminate early next month in Venice, at the annual economic summit of the heads of state of the world's seven leading industrialized nations.

In preparation for that encounter, officials will attend the OECD ministerial meeting here.

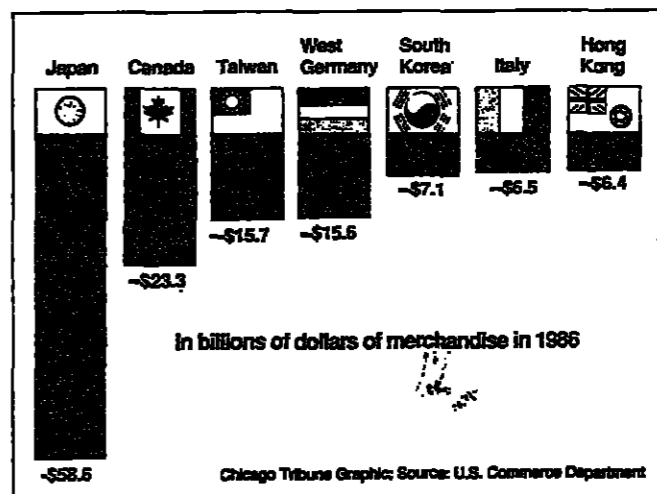
The organization's secretariat has already prepared bad news for them. Although confined to a diplomatic phrasing, required of all international bodies, the OECD secretariat paints a gloomy picture of "unsatisfactory" economic growth over the coming 18 months.

The report for ministers states frankly that "there is a risk — which should not be underestimated — that if stronger growth appears elusive, all that has been done" over the past few years to reduce inflation and set the stage for a healthier growth environment "might well be jeopardized."

Were that to happen, the report warns, "it would become inevitable that within countries and between countries frictions, misunderstandings and tensions would multiply."

What that means is a disintegration of the postwar system of international cooperation into competing power blocs, each fighting for export markets and struggling to maintain living standards that had come to be taken for granted.

This is an abyss that the industrial powers have already faced once. It was just about 20 years ago, in the midst of the Vietnam conflict, that a war-weary, inflation-prone, deficit-ridden United States began to dispute with its partners in Western Europe and Japan the rights and obligations of each in maintaining the international monetary system.



The United States' largest deficits with its trading partners.

Then, as now, the fundamental issue was how to distribute the burden of adjustment. The United States, running an international deficit it could not finance, was clearly living and spending beyond its means and needed to retrench. But the surplus countries, to a large degree, had grown rich selling into that spending spree and also needed to adjust to their new wealth.

The policy responses were slow in coming and when they did were too little and too late to save the postwar system of fixed but adjustable exchange rates.

Instead of grappling with the basic issue of burden-sharing, politicians decided it was easier to change the system. And so, in 1973, the world moved to a system of floating exchange rates whereby market forces would devalue the currency of countries in deficit and revalue those in surplus countries, automatically restoring balance.

That worked, more or less, for a while. But liberalization of financial markets coupled with a technological revolution that fostered an internationalization of capital flows encouraged "overshooting" of exchange rates.

This has turned the exchange

See OECD, Page 15

Pinochet Pays No Heed To Call for Free Election

By Juan de Onis
International Herald Tribune
SANTIAGO — One month after Pope John Paul II's plea for political reconciliation in Chile, President Augusto Pinochet is stepping up his campaign for unopposed reelection to an eight-year term.

The military regime has given no sign of making any concessions to the almost unanimous demand of political parties for a free presidential election next year in which there would be more than one candidate.

General Pinochet and his supporters plan a plebiscite to elect an unopposed official nominee in 1989 as part of a "transition to democracy."

The pope, who called General Pinochet's regime a "dictatorship in transition," instructed the Roman Catholic Church in Chile during his visit in April to support the

development of a broad-based government of "unity and consent."

Chilean bishops are to meet on May 21 to discuss how to do that. But the effectiveness of the church as a rallying point for democratic forces is in doubt.

"I don't see any change in Pinochet since the pope's visit," said Rodolfo Sequel of the National Workers Command, a political labor group. "He has the bit in his teeth."

Intimidation of the church as a voice of protest continues. Mario Mejias, who spoke critically of the Pinochet regime before the pope during a huge rally for shantytown dwellers, was taken from his home this month by 10 armed men and was severely beaten.

A Vatican spokesman said that John Paul was "shocked and pained" by the incident. Police in

See PINOCHET, Page 2

Bonn to Begin Census With Boycott Expected By at Least 2 Million

By Robert J. McCarmey

BONN — Nobody knows how many people live in West Germany, and the national census that begins this week may not answer the question.

At least two million residents plan to boycott or sabotage the survey, according to polls sponsored by the government, on the advice of a grass-roots coalition united under the slogan, "Only sheep are counted."

The Greens party helped to sponsor the loosely organized movement, which has a leftist orientation. The boycott campaign has infuriated the authorities.

The police, acting under a law requiring citizens to cooperate with the census, have confiscated anti-census leaflets in raids on offices of the coalition throughout the country.

The city of Bonn has levied fines of \$4,600 apiece on 19 Greens members of parliament who held up a banner that said "Boycott the Census" outside the legislature on Feb. 18.

On Wednesday, the first of 600,000 part-time census-takers will begin going door to door to distribute the census forms. The official "census day" is May 25, which means that one's age, residence and other data are to be recorded as they are on that day.

The coalition contends that the 33-question survey invades people's privacy.

It also maintains that a census is not needed, because all West Germans already must register their names and addresses with municipal authorities.

The government has mounted a \$15 million publicity campaign, including television and radio advertising, to convince people that it needs the data to plan for pensions, housing, employment and environmental protection.

The last census was in 1970. The population is believed to have grown falling in 1974 due to a low birth rate, and some experts say the government's official estimate of 61 million residents is as much as two million too high.

"Our interpretation is that the census requires a kind of knowing by the citizens to the government," said Uwe Guenther, a legal adviser to the Greens' parliamentary delegation. "Officials have the power to force people to do something that makes no sense at all."

A substantial number of conservative citizens sympathize with this view.

As recently as January, the government said that opinion surveys showed that 60 percent of the population was unwilling to answer all of the census questions.

However, Helmut Brouder, the head of the government's census publicity campaign, said that this was partly due to several widespread misperceptions.

He said that according to opinion surveys, many West Germans were under the mistaken impression that the census-takers would ask them how much money they earned.

Many also feared that the authorities would be able to match names with data, he said. However, according to Mr. Brouder, a person's name will be recorded on a page separate from the questionnaire itself, and the page with the name will be torn off before the data is entered into the computer.

Names are to be used only for comparison with the municipal registers to confirm that each household has responded, he said.

After the government's publicity campaign, surveys indicated that 85 percent of the population planned to answer all of the questions, Mr. Brouder said. From 3 percent to 5 percent said they would boycott the survey, and the rest have not made up their minds, he said.

However, a margin of error of up to 5 percent is potentially significant. If the Federal Statistics Office is right in estimating that 61 million people live in West Germany, then a 5-percent error would represent more than three million people.

A Frankfurt publisher has sold more than 200,000 copies of a book describing how to give false information to census-takers without breaking the law. Citizens face fines of up to \$3,500 for obstructing the census, but government officials have said that they are likely to prosecute only those who organized the boycott.

The Computer Chaos Club, an anti-census group based in Hamburg, "warns" people not to spill coffee on the questionnaire. Above all, it says, do not smudge the form with graphite, of the sort available in automobile supply stores for use against rust, because it would wreak havoc with the computer.

The Greens want their supporters to hand in blank census forms to collection centers, so that it is possible to get an accurate measure of the extent of the boycott.



South Korean Catholics Demonstrate

Anti-government demonstrators, prevented by police from marching in Seoul, burned their placards Sunday outside Myeongdong Cathedral. They had attended a memorial service there earlier for slum dwellers who are believed to have killed themselves after the government demolished their shanties.

Thatcher Consults Aides as Signs Point to Election

Reuters

LONDON — Prime Minister Margaret Thatcher held final consultations with senior ministers Sunday as Britain awaited her decision on whether to call a general election for June.

As Mrs. Thatcher met with seven key advisers at Chequers, her country retreat, all signs indicated that she had chosen June 11 as the date that she will ask voters for a third consecutive term in office.

Her governing Conservative Party made a strong showing Thursday in local council elections and has a

comfortable lead over the opposition in public opinion polls. Mrs. Thatcher would be starting as a favorite as she seeks to extend her mandate by five years.

The prime minister is expected to drive Monday from her office on Downing Street in London to Buckingham Palace to meet with Queen Elizabeth II and request the dissolution of Parliament so that an election can be held.

If Mrs. Thatcher calls the election, she is likely to urge voters during her campaign to consolidate her efforts to put emphasis on free-

market forces and diminish the role for the state.

If she wins, her government is likely to accelerate its program of denationalizing government-owned companies and restricting the power of labor unions.

Judging from recent polls, Mrs. Thatcher would enter the campaign with a lead of about 10 percentage points over the Labor Party and 14 or 15 points over the Liberal-Social Democratic Alliance.

If she retained that lead, Mrs. Thatcher would be returned to office with an overall parliamentary majority that is only slightly below

the 391 seats that the Conservatives now hold in the 650-member House of Commons.

Her campaign would be likely to benefit from the publication Thursday of employment figures, which are expected to show that the number of jobless has fallen further toward the three million mark.

The number of unemployed has more than tripled since Mrs. Thatcher took office in 1979 and is now at about 3.1 million, just over 11 percent of the work force. But the figure has been falling in recent months.

PINOCHET: Firm on Plebiscite

(Continued from Page 1)

investigators have not identified who was responsible.

The Reagan administration is also applying pressure for a return to democracy.

Neither the U.S. government nor the Vatican seems prepared, however, to confront General Pinochet with sanctions to pressure him into allowing more political freedom.

Criticism has been restrained by a fear that Marxist revolutionaries would gain strength from any military crisis in Chile.

Like any incumbent running for re-election, General Pinochet has been touring the country, inaugurating public works projects, handing out keys to homeowners under a \$100 million low-cost housing program and asserting that unemployment and inflation have been reduced by his economic policies.

Government-appointed mayors and university officials have circulated letters asking businessmen, big farmers and merchants to return a signed form endorsing or rejecting the general's candidacy.

Under the constitution approved in 1980, the four-member military junta that has governed Chile under General Pinochet's leadership for 13 years nominates the plebiscite candidate.

That hurdle remains, but there is no other visible candidate now. The army backs General Pinochet. And members of the junta in the navy and air force have rejected opposition appeals for free elections.

But when he developed his film, Mr. Smith noticed for the first time that there were two maroon vehicles involved and realized he had (followed the wrong one. (AP, UPI)

CRASH: Flight Recorder Found in Polish Jet Disaster

(Continued from Page 1)

smoldering shards of metal and bits of clothing.

A view from a helicopter showed a broad scar in the dense, tall woods of firs and birches, and no surviving trace of the plane beyond relatively small fragments.

PAP reported that the plane was ordered to turn back by ground authorities after its crew reported a malfunction sometime after take-off.

Accounts provided by Polish journalists suggested that the plane turned back after one engine failure, then crashed when a second engine burst into flames.

LOT's general director, Jerzy Slowinski, said the plane's captain, Zygmunt Pawlacyk, made the decision to return to Warsaw rather than head for closer airports, at Gdansk and Grudziadz. Mr.

Slowinski said the plane jettisoned fuel near Piasczno on the way back.

[An official at Okciec said the crew recorded farewells seconds before the jet crashed, United Press International reported from Warsaw. "All the crew members said goodbye to their families or relatives, knowing they will fail to land," the official said. "That's the end. Goodbye. We are falling down."]

Warsaw authorities declared two days of official mourning in the city, canceling outdoor events and closing theaters, cinemas, clubs and restaurants.

The most serious previous crash involving LOT occurred in 1980, when another Ilyushin went down while approaching Okciec after a flight from New York. The 87 vic-

Iran Rejects Shultz's Call For Pullout, Warns U.S.

The Associated Press

NICOSIA — The Iranian Foreign Ministry warned the United States on Sunday that it would suffer "irreparable damage" if it made any hostile moves against Iran. Tehran's official news agency reported.

The agency, monitored in Nicosia, assailed a statement by George P. Shultz, the U.S. secretary of state, warning Iran to accept United Nations Security Council resolutions calling for a cease-fire and a troop withdrawal, or face "appropriate enforcement measures." He made his comments after meeting a delegation from the Arab League in Washington on Thursday.

Washington has been intensifying efforts to reassure Arab nations that covert U.S. arms sales to Iran, disclosed in November, were a temporary shift in U.S. foreign policy that has since been reversed.

The Iranian statements coincided with a tour of Iraq and six other Arab countries of the Gulf region by Richard W. Murphy, the assistant U.S. secretary of state for Near Eastern and South Asian affairs.

Mr. Murphy said in Oman on Saturday that Washington was not seeking to heighten tension in the Gulf. The United States deplored the Iran-Iraq conflict, he said, which had "gone on far too long."

Iran and Iraq have been at war since September 1980. Iraq has called for a peaceful settlement, which Iran has rejected. Tehran insists that the war continue until the fall of President Saddam Hussein's government in Baghdad.

Iran Attacks Soviet Ship

David B. Ottaway of The Washington Post reported from Washington.

An Iranian attack last week on a Soviet freighter in the Gulf, the first against a Soviet vessel, apparently was a warning to both Moscow and Washington not to become more deeply involved on the side of Iraq and its Arab allies.

According to Lloyd's of London's shipping intelligence unit, the Soviet freighter was attacked by "small boats" at midday on Wednesday. The Soviet Union agreed last month to lease three small tankers to Kuwait, an ally of Iraq, and promised military protection if necessary. Iran interpreted that as a hostile gesture.

The Soviet news agency Tass confirmed that a Soviet ship had been attacked and said that "serious damage was inflicted to the ship." But it said that no crew members were hurt, and gave no further details.

The Reagan administration is prepared to reach an accord with Kuwait providing for U.S. protection of Kuwaiti oil tankers. Some U.S. lawmakers say such an agreement could significantly escalate U.S. involvement in the Gulf and perhaps require the administration to invoke the War Powers Act, which requires the president to consult with Congress before sending troops into hostilities or to areas where hostilities are likely.

Kuwait has not made a final decision to place up to 11 of its state-owned tankers under U.S. flags. But discussions by Kuwait and U.S. maritime officials on U.S. legal requirements for such transfers of registration have reached an advanced stage, and the Pentagon is proceeding with detailed planning to protect these Kuwaiti ships.

Kuwait formally requested the U.S. Coast Guard on Thursday to send an official to inspect its tankers, the clearest indication that Kuwait intends to proceed with the plan.

Several members of Congress and aides to several others expressed concern that the Iranians were likely to continue attacking the Kuwaiti tankers, even under U.S. flags. They also said that the United States would find itself in direct confrontation with Iran for the first time since the war began six and a half years ago.

The House Foreign Affairs subcommittee on the Middle East is planning hearings on the new U.S. commitment in the next two weeks, said an aide to the panel's chairman, Lee H. Hamilton, Democrat of Indiana, because its members "don't know all the ramifications and are not sure we have thought through all the ramifications."

"It is clear," said a subcommittee member, Robert G. Torricelli, Democrat of New Jersey, "that we have not begun to understand the consequences of a U.S. retaliation or consider the contingencies that need to be planned."

WORLD BRIEFS

Shamir Envoy Carries Appeal to U.S.

TEL AVIV (UPI) — A special emissary for Prime Minister Yitzhak Shamir left Sunday for Washington to attempt to win U.S. backing for a Middle East peace plan to counter Foreign Minister Shimon Peres's proposals for an international conference.

There were no details of the plan carried by Yass Ben-Aharon, director-general of Mr. Shamir's office. But as he left, an official in Mr. Peres's office insisted there was no real alternative to the international conference.

The maneuvering by both sides in Israel's coalition government came a day before the 10-man "inner cabinet," Israel's chief decision-making body, was to consider Mr. Peres's proposals. Political sources said it was divided 5-5 on the issue. Meanwhile, in Jerusalem, mounted policemen used clubs Sunday to disperse about 1,000 demonstrators who clashed over the peace moves. The Associated Press reported.

Guatemala Rights Inquiry Is Urged

LONDON (AP) — The civilian government of Guatemala should investigate tens of thousands of human rights abuses committed under former military rulers, Amnesty International said in a report to be released Monday. It said such abuses had abated, but that killings and abductions continued.

"A government cannot expect to ensure respect for human rights until it has rooted out the torturers and killers from its security forces," the report said.

The London-based human rights group has complained repeatedly about abuses under military regimes in Guatemala and about slow progress under President Marco Vinicio Cerezo. Mr. Cerezo took office in January 1986. The report said there had been positive developments since then, but that an amnesty decree by the last military leader, General Oscar Humberto Mejia Victores, "is being used to provide a shield of immunity for those responsible for past abuses and has effectively prevented their being brought to justice."

Terrorist Plot to Kill Chirac Reported

PARIS (AP) — A "three-man

commando team trained in the Bekaa Valley of Lebanon planned to assassinate Prime Minister Jacques Chirac of France on March 25, but called off the attack for unknown reasons. Le Journal du Dimanche reported Sunday.

The weekly newspaper said that the French government had obtained the names and profiles of the commando team through the "Kilowatt" line, an international network of intelligence officials who share information on terrorism. It said that five men started planning the operation in February in commando training camps in the Bekaa Valley, and that three of them traveled from Lebanon to Switzerland or France in March, using false passports.

On May 5, Interior Minister Charles Pasqua said that an attack had been prepared a month earlier against Mr. Chirac and members of his government, and "We knew who it was, we knew who was implicated."

Jacques Chirac

For the Record

A record 95.9 percent of eligible Maltese voters went to the polls in an election that was expected to bring the pro-Western Nationalists back to power after 16 years of socialist rule, officials said Sunday. Final results will be known Monday, they said.

An Irish singer, Johnny Logan, has become the first contestant to win the Eurovision Song Contest twice. Mr. Logan, who won in 1980, took the top prize Saturday night in Brussels for his song "Hold Me Now." (AP)

Gunsmen killed four white farmers in an attack on a club near the town of Gweru in central Zimbabwe, police said Sunday. (Reuters)

Two black South African policemen were killed Sunday in fighting between rival factions at a gold mine at Leslie in the eastern Transvaal mine officials said. (Reuters)

TRAVEL UPDATE

Beirut Airport Reopens After 3 Months

BEIRUT (UPI) — Beirut's International Airport was reopened Sunday with the landing of an empty passenger jet from Middle East Airlines, the Lebanese national carrier. The airport has been closed since Feb. 1 because of civil strife.

The Boeing 707, which took off from Cyprus, landed at the Beirut airport. Lebanese and Syrian troops manned checkpoints and searched cars in the area. Passenger flights were scheduled to be resumed Monday with a plane landing from Sudan and one leaving for Paris.

Airline officials said they had reached an agreement with insurance companies on insuring flights, and that passengers would be charged an additional amount to make up for a portion of the increased insurance premium. There were no details on how much they would have to pay.

The French airline UTA will increase flights to San Francisco to four next month and also seek authorization to land at Newark International Airport in New Jersey. (UPI)

Temporary work stoppages in France by air traffic controllers and pilots are expected to force delays in some flights of Air France and the domestic carrier, Air Inter, on Monday and Tuesday, the companies said.

Special bus service is to link Lisbon to the northern city of Porto and to the Spanish border to counteract a 24-hour national strike by train engineers that was expected to shut down Portugal's railroad system as of midnight Sunday. (UPI)

CONTRA: McFarlane to Testify

(Continued from Page 1)

were used to aid the contras. But he is expected to testify that the president repeatedly said in 1984 and 1985 that the administration was not to abandon the contras after Congress cut off aid.

The president instead asked his staff to help the contras improve their image so that Congress might one day renew U.S. aid. In 1985, the contras' public image was poor: They were accused of human rights abuses against civilians and were viewed as an ineffective fighting force with little political support in Nicaragua.

Until those image problems could be corrected and overt aid renewed, Mr. McFarlane is expected to say, the president explicitly directed him to be sure the contras forces did not atrophy and die.

That job fell to the National Security Council because the congressional restrictions did not allow the Central Intelligence Agency or the State Department to run the program. Mr. McFarlane is expected to say.

In testimony at the hearings last week, Richard V. Secord, a retired U.S. Air Force major general who directed the U.S. arms sales to Iran and covert support for the contras, said that William J. Casey, then the director of central intelligence, nonetheless gave valuable assistance to the contra support program.

Mr. McFarlane resigned as head of the National Security Council in December 1985. The first word that Colonel North was secretly operating the contra program from the White House became public in August 1985. When several congressional committees investigated the matter, Mr. McFarlane denied the assertion.

Congressional investigators have questioned him about that several times in recent weeks. Several members of Congress have said Mr. McFarlane deliberately misled them in 1985.

In response to questions in October 1985, he told the House intelligence committee that "there is no official or unofficial relationship with any member of the NSC staff regarding fund-raising for the Nicaraguan democratic opposition."

That statement was later shown to be false. On Monday, Mr. McFarlane is expected to apologize for that.

The Tower commission report, the most comprehensive account of the Iran-contra affair made public so far, made it clear that Mr. McFarlane was well aware that Colonel North was heavily involved in aiding the contras, although the report was ambiguous about whether Mr. McFarlane helped in some of the activities.

The report was prepared, at Mr. Reagan's request, by a three-member panel headed by former Senator John Tower of Texas.

But in one White House memo that was published in the report, Mr. McFarlane refused in 1984 to give Colonel North permission to solicit donations for a helicopter for the contras because, he wrote, "I don't think this is legal."

Colonel North is known to have regularly informed Mr. McFarlane and his successor as national security adviser, Rear Admiral John M. Poindexter, of almost everything he was doing.

The colonel and Admiral Poindexter will also be called to testify at the hearings.

IRA: March in Belfast

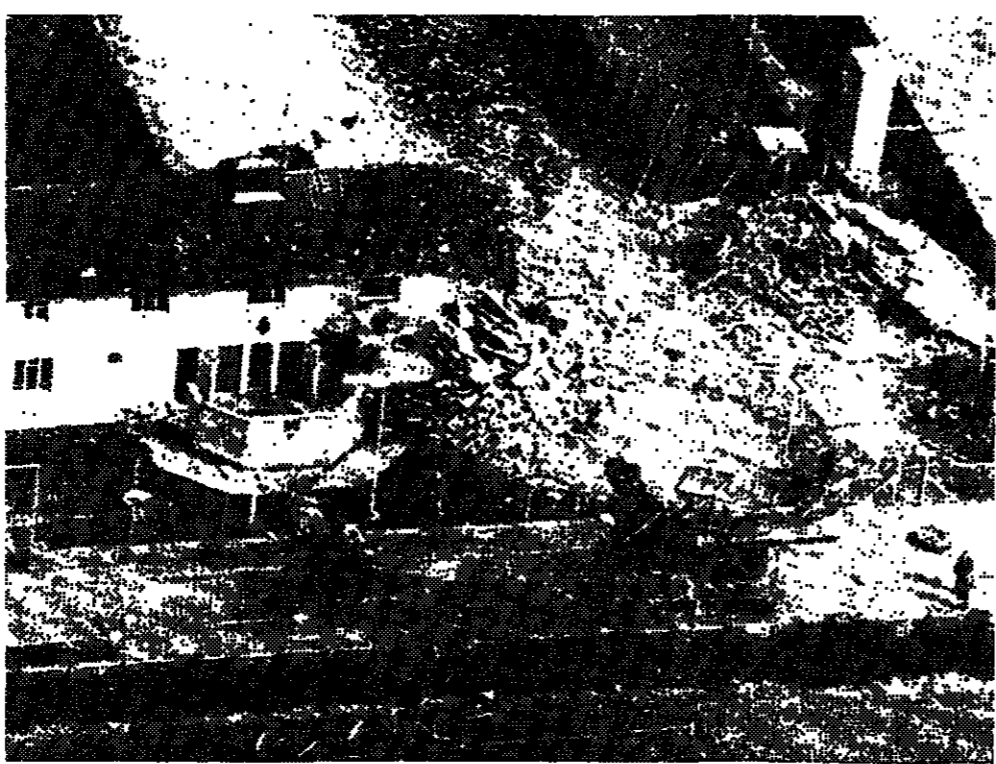
(Continued from Page 1)

killed in a gun battle in the street. The ambush was the most violent single incident in Northern Ireland since a IRA mortar attack on the police station at Newry in February 1985 killed nine policemen.

The senior IRA member, confirming that the IRA was searching for an informer, said the attack had left the guerrilla organization "demoralized but not defeated."

The IRA, he said, had planned to scale down its operations during the campaign for the British general election, which is expected to be called for next month. But he said the Loughgall ambush had forced a change of plans.

The shoot-out set off two nights of rioting in pro-IRA centers across the province. Snipers fired at security forces in Londonderry, and rioters burned cars, attacked police and troops with rocks and fire-bombs in Belfast, Coalisland, Downpatrick, Portadown and Lurgan. (Reuters, UPI)



The Loughgall police station after IRA men rammed it with a bulldozer carrying explosives.

POLITICS: Adultery Emerges as Issue as Candidates Face Personal Queries

(Continued from Page 1)

answer if asked if he had ever committed adultery.

"I'm going to deal with it," he said. "When you run for public office in this country, especially for the presidency, you climb into a goldfish bowl."

The Reverend Jesse L. Jackson, who ran for the Democratic presidential nomination in 1984 and has yet to announce his candidacy, said that the question put to Mr. Hart about his marital fidelity "was across the line."

But Mr. Jackson, who also appeared on NBC, added, "When we hear these rumors and historical documentation about Jefferson, Washington, Eisenhower and Kennedy, I'm just glad we did not lose

their public service on that issue alone."

Representative Robert G. Torricelli, Democrat of New Jersey, said that congressmen were even beginning to scrutinize their professional relationships with women.

"The sense on the floor of the Congress this week is that all rules have changed and all bets are off, that relationships are going to be changed for better or for worse," he said on the CBS program "Face the Nation."

"People, sadly I think, are going to hesitate in their professional relationships with women on their staffs, women who work on their campaigns," he said.

The Herald reported May 3 that a young woman from Miami had spent the previous Friday night and much of Saturday with Mr. Hart.

The Herald's initial stories said that its reporters did not see anyone enter or leave Mr. Hart's townhouse from late Friday night, May 1, until 8:40 P.M. Saturday, May 2. But Mr. Hart and a friend, William Broadhurst, and the woman, Donna Rice, have contended that they joined her friend, Lynn Armandi, for a Saturday afternoon drive around Washington.

The Herald reported Sunday that the photographer, Brian

Smith, had seen people outside the townhouse Saturday afternoon but concluded it was a "false alarm" because he did not spot a woman with blond hair. Ms. Rice has blond hair.

Mr. Broadhurst and Ms. Rice have said that she and Ms. Armandi spent Saturday night at Mr. Broadhurst's house and that Ms. Rice walked to Mr. Hart's house before noon Saturday.

Mr. Broadhurst said he drove to Mr. Hart's house and double-parked shortly after noon to begin the afternoon drive.

The newspaper said that the photographer, Mr. Smith, returned to Miami on Thursday and read Mr. Broadhurst's statement for the first time. Then he recalled that he had seen a maroon car double-parked at Mr. Hart's house between 2 and 4 P.M.

Mr. Smith, who said that his view was partially blocked, recalled seeing two men and one woman near the double-parked car, but no woman with blond hair, the Herald reported.

Mr. Smith said he followed a maroon car to a nearby church and saw a man and a woman emerge, the report continued, but he did not recognize either person and told

other Herald staffers that it had been a false alarm.

But when he developed his film, Mr. Smith noticed for the first time that there were two maroon vehicles involved and realized he had (followed the wrong one. (AP, UPI)

CRASH: Flight Recorder Found in Polish Jet Disaster

(Continued from Page 1)

smoldering shards of metal and bits of clothing.

A view from a helicopter showed a broad scar in the dense, tall woods of firs and birches, and no surviving trace of the plane beyond relatively small fragments.

PAP reported that the plane was ordered to turn back by ground authorities after its crew reported a malfunction sometime after take-off.

Accounts provided by Polish journalists suggested that the plane turned back after one engine failure, then crashed when a second engine burst into flames.

LOT's general director, Jerzy Slowinski, said the plane's captain, Zygmunt Pawlacyk, made the decision to return to Warsaw rather than head for closer airports, at Gdansk and Grudziadz. Mr.

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Changes in Hanoi Bring New ASEAN Action on Cambodia

By Michael Richardson
International Herald Tribune

SINGAPORE — The sweeping leadership changes and emphasis on the need for economic recovery in Vietnam have prompted non-Communist countries in Southeast Asia to revive attempts to bring about a negotiated withdrawal of Vietnamese troops from Cambodia.

Foreign Minister Siddhi Savetila of Thailand arrived Sunday in Moscow for the first of a series of talks over the next few months involving members of the Association of Southeast Asian Nations, the Soviet Union, the United States, Vietnam, and possibly China and the warring factions in Cambodia.

ASEAN comprises Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Nguyen Van Linh, leader of the Vietnamese Communist Party, is to visit Moscow later this month, Tass has announced.

Mr. Linh, a prominent advocate of economic reform, was appointed party leader in December. Indonesian analysts say he appears to have consolidated his base of support in the party and government since then.

He was quoted by Hanoi Radio on Thursday as saying that his predecessors had left the country floundering without an economic and social strategy.

Foreign Minister Mochtar Kusumaatmaja of Indonesia said recently that Vietnam had brought in younger leaders who wanted to fo-

cus on their country's severe economic problems.

The new leaders appeared more amenable, he added, to a political solution of the conflict in Cambodia, which has been occupied by Vietnamese forces since 1973.

Foreign Minister Supphal Dhanabalan of Singapore said last week that diplomatic contacts initiated by ASEAN would reveal whether Vietnam's leaders were ready for a negotiated peace in Cambodia.

Vietnam has been politically and economically isolated by most Western countries since it invaded Cambodia in 1978 and installed the government there in January 1979.

Mr. Dhanabalan said if Vietnam wanted economic reconstruction, it "must settle the Cambodian problem to get cooperation from the non-Communist world."

Western diplomats and other analysts in Southeast Asia said there was "no sign that the new consensus on economic policy is being matched by a revised consensus on foreign policy, particularly over Cambodia."

Michael Leiter, a specialist in international relations at National University of Singapore, said there was "no sign that the new consensus on economic policy is being matched by a revised consensus on foreign policy, particularly over Cambodia."

He said Vietnamese leaders "will seem to be holding to the position that it is absolutely essential for them to have both Cambodia and Laos in a very close political relationship."

Indonesia is ASEAN's main point of contact with Vietnam on the Cambodian issue, and Mr. Mochtar, Indonesia's foreign minister, has said he plans to visit Hanoi next month.

Mr. Mochtar said Friday that Mr. Siddhi, the Thai foreign minister, would inform Soviet leaders this week that Indonesia was ready to host an informal meeting of the Cambodian factions on national reconciliation.

He said this meeting could be followed by talks in Jakarta with Vietnamese participation. This was among a number of suggestions from ASEAN that Mr. Siddhi was expected to discuss in Moscow.

U.S. officials and Western analysts said that on a tour of Indonesia, Australia and Indochina in March, Edward A. Shevardnadze, the Soviet foreign minister, made it clear that Moscow was not prepared to use its political influence and extensive aid to Vietnam as leverage on Hanoi to resolve the Cambodian problem.

However, Mr. Mochtar suggested that the Soviet Union was interested in progress toward a Cambodian solution because it would improve Moscow's relations with China and ASEAN countries.

Japanese Question The Expulsion of Reporter by China

Washington Post Service

BEIJING — Japanese diplomats are said to be shocked and frustrated over the decision to expel a Japanese reporter from China without providing clarification or incriminating evidence against him.

The Chinese security police told Shuichi Henni, 42, a reporter for Japan's Kyodo news agency, on Friday that he had violated Chinese laws by obtaining "national intelligence" information through illegal means. He was given 10 days to leave China.

An official at the Japanese Embassy said he had been unable to obtain any clarification of how Mr. Henni was supposed to have violated the law.

The official said he was "shocked and saddened" by Mr. Henni's expulsion. He said the Japanese ambassador, Yosuke Nakae, was "frustrated" over the embassy's inability to obtain a clarification of the Chinese action.

AMERICAN TOPICS



Passengers in a dirigible flying over the San Francisco Bay area. The blimp, owned by a British company in Oakland, California, makes several one-hour excursion flights daily.

TV Ministry Scandals Lampooned in South

All across the Bible Belt of the U.S. South these days, country music radio stations are lampooning the current troubles of television evangelists. The New York Times reports. On many stations the most requested song is "Would Jesus Wear a Rolex on His Television Show?"

"Would Jesus be political if He came back to earth?" goes the song by Ray Stevens. "Have His second home in Palm Springs and try to hide his worth?"

On radio talk shows, in small-town taverns and in roadside truck stops, the recent tales of sexual adventure, big salaries and profligate spending of fundamentalists on television have provoked a derisive reaction that has upset the evangelists.

The Reverend Jerry Falwell, the Virginia evangelist who has taken over the scandal-ridden PTL, or Praise the Lord, television ministry, said that "national credibility for the cause of Christ is at an all-time low."

He added that "out there in the general public there's the inability to write that check because a lot of faith has been shattered."

Members of several conservative societies in northern California plan to enter the state lottery for the 190 licenses being issued this year to shoot cougars. Each entrant plans not to use the license, thus saving the life of a mountain lion for a year. Terry Mansfield, head of the California wildlife management division, said the state has no objections, adding, "It's sure to generate more revenue for lion research." The shoot was authorized because the number of cougars increased from 2,000 in 1971, when shooting them was first banned, to 5,000 today.

Cats now outnumber dogs as pets in the United States, 56 million to 51 million, according to MRCA Information Services, a market research company in Stamford, Connecticut. "People are staying single longer," said

Notes About People

Nancy Reagan has been meticulously keeping a diary throughout her six years at the White House, according to U.S. News & World Report magazine. The magazine says she regrets not having followed her father's advice to keep a diary while her husband was governor of California from 1967 to 1974.

Senator Claiborne Pell marched unnoticed in a Washington demonstration by 75,000 protesters against U.S. policy in Central America and South Africa. Mr. Pell, Democrat of Rhode Island, did not walk in front with the march leaders and was recognized by few people. He said he marched as a personal gesture, adding, "I don't know if I did any good, but I know I caught a cold."

—ARTHUR HIGBEE

Short Takes

Dirigible flights for fare-paying passengers are being offered by a British company, Airship Industries, in Oakland, California. They are the first such flights in the United States since the Hindenburg, a German zeppelin, exploded on May 6, 1937, on landing in Lakehurst, New Jersey. Thirty-six persons were killed in the accident. Only excursions are available, at a cost

of \$150 for a one-hour ride around San Francisco Bay. But the company is seeking federal approval for point-to-point service. The blimp is essentially a giant polyester bag filled with nonflammable helium. The German airship had a rigid frame and was filled with explosive hydrogen.

Half the people in a recent Gallup survey said they favored the financing of congressional election campaigns by taxpayers, with private contributions prohibited. Fifty percent of those polled were for the idea, 42 percent were against it and 8 percent were undecided. Public support for this change was highest in 1973, during the Watergate crisis, when 65 percent approved and 24 percent disapproved. Last year congressional campaigns cost more than \$400 million.

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Weinberger Proposes SDI Tests That Would Violate ABM Pact

By Michael R. Gordon
New York Times Service

WASHINGTON — Defense Secretary Caspar W. Weinberger has sent President Ronald Reagan a report proposing four new tests that would violate the traditional interpretation of the 1972 anti-ballistic missile treaty, according to administration officials.

Building its case against the traditional and more restrictive view of the treaty, the Defense Department says in the report that the United States could save \$3 billion by carrying out the four tests instead of holding to the current schedule of tests that seem to be clearly permitted in the treaty with the Soviet Union.

The report, which was not made public, also argues that information derived from the new tests would give policy makers more confidence in making decisions about whether to build anti-missile defenses. The report says the tests would cut by two years the time needed to develop Mr. Reagan's Strategic Defense Initiative, officials said Saturday.

The Pentagon study urges that the Reagan administration adopt a plan to accelerate deployment of the space-based missile system. An official who supports the defense initiative said the tests would allow the United States to begin deploying the system, also known as "star wars," in 1995 or 1996.

The president requested the Defense Department report on new tests that could be carried out, and

new legal studies by the State Department, in February. He hoped the reports would help him decide whether the United States should stop observing the traditional interpretation of the ABM treaty and formally adopt a new, broader view. The broader interpretation of the treaty would permit expansion of the Strategic Defense Initiative to include new space-based tests.

Mr. Weinberger and other civilian Pentagon officials have been critical of the constraints imposed by the ABM treaty. The Pentagon report was expected to argue that there are benefits in abandoning the traditional interpretation.

Some administration specialists disputed the Pentagon report and said its conclusions were not strongly supported by the analysis. They asserted that the traditional interpretation provided sufficient leeway for development of the space-based system. They also questioned whether some of the new tests proposed by the Pentagon would be allowed even under the broader interpretation.

The Pentagon study identifies four new tests, according to officials who have reviewed the study.

One of these is called THOR, which stands for Tiered Hierarchy Overlayed Research. THOR would be a series of experiments testing U.S. capability to intercept missiles and dummy warheads during the main stages of flight. Interceptions would be carried out using rockets that destroy their targets with an explosion. One administration official, who supports the defense initiative, said that the first of the experiments could take place as soon as next year.

In the second test proposed in the report, a submarine would fire a target missile carrying dummy warheads and possibly decoys. This experiment would test the use of space-based sensors and interceptors. An official said that such a test could take place in 1989.

A third test is the Laser Integrated Space Experiment. In it, a space-based chemical laser would be tested in 1990, an official said.

In the fourth test, the sensor integrated discrimination experiment, a rocket would be fired from Vandenberg Air Force Base in California. A variety of space-based and other sensors would study whether warheads carried by this missile could be distinguished from decoys. Such a test could take place in 1990.

Administration officials said the Pentagon report suggested that if the United States does not adopt the broad interpretation of the ABM treaty it would ultimately be forced to withdraw from the agreement to conduct its testing and development program.

The Senate Armed Services Committee voted on Tuesday to accept an amendment to a military spending bill that would block the administration from carrying out tests that violate the traditional, restrictive interpretation of the treaty.

lators last week. Officials close to him said that a decision on which path to take was likely to be made early this week.

Analysts said that the political cost of any of those options might be high. They said that legislators want the president, who is highly popular, to bear most of the onus.

A significant faction of the opposition Peronist Party has already stated that it will not vote in Congress for anything resembling an amnesty.

Earlier this month, the Supreme Court ruled out an active role for itself in finding the solution. The court was seeking to quiet speculation that it would establish a legal precedent by removing many officers from the threat of prosecution on the assumption that they were following orders.

In a news release, the court said that any ruling it might issue would apply only to a specific abuse, and could not serve as a precedent.

In a brief filed Thursday in a case that is on appeal, Attorney General Juan Octavio asked the court to exonerate those who did

not have "effective command and decision-making capacity."

But court officials said that the ruling on that case would not come for several months and would apply only to two policemen and a former police doctor.

The majority leader in Parliament, Cesar J. J. Carido, said that Mr. Octavio's brief might serve as legal guidance for a legislative or presidential act, however.

Sources close to the military said that the issue of trials must be quickly resolved if the army's new leadership is to re-establish its command structure.

That chain of command was destroyed, they said, when the previous army leaders sought to put down the rebellions and encountered widespread disobedience by subordinate officers.

A retired army officer said that the army had "not recomposed itself" since the rebellions, which broke out April 16 and continued for six days.

He said that the new army chief of staff, General José Dante Carido, "has to face reality and talk to the officers and tell them what Alfonso and Argentina are offering the military."

The retired officer added that General Carido would "have to go" if he could not solve the problem of trials to the satisfaction of most of the military.

He said that the "key date" by which Mr. Carido had to show "he has some cards to play" is Army Day, May 29, when the army chief traditionally makes a speech.

Mr. Alfonso has said since he ran for president in 1983 that there were varying "levels of responsibility" for the human rights abuses, which caused the deaths of 9,000 people and included the torturing of thousands of others.

After taking office, the president supported trials for those who commanded the armed forces during the era of abuses, which ran from 1976 to 1983. Five of the nine former military commanders were convicted and are serving sentences ranging up to life in prison.

The filing of charges against other military officers has proceeded more slowly. Each charge has depended on the speed with which the prosecutors could gather evidence and have the cases accepted in courts around the country.

Last year, the government prosecutor asked the courts that were hearing cases against other officers and policemen to take into account whether they complied strictly with orders, whether they gave orders or whether they exceeded orders. But the courts were under no obligation to follow those guidelines.

In December, after the president voiced concern that the trials were dragging on and creating tension in the armed forces, Congress approved a law setting a Feb. 22, 1987, deadline for the filing of charges in human rights cases.

But the law prompted a flurry of filings. The result is that as many as 450 men, mostly current or former military officers, are named in various investigations still continuing in the courts.

AIDS: U.K. Researchers Link Inherited Substance to Risk of Virus Infection

(Continued from Page 1)

that influenced individual susceptibility to AIDS.

The usefulness for individuals or their doctors of testing for the protein variant is unclear. Evidence indicates that even those with the variants of Gc seem as most protective are not entirely safe from AIDS infection or disease, the British scientists said. And they said they do not know the implications for individuals of the several different

ent genetic combinations of the protein that are possible. Genetic differences in susceptibility to infectious diseases are a well-known biological phenomenon, and scientists are accumulating a growing body of evidence that genes play crucial roles in the way humans react to infectious agents and other environmental factors.

Such genetic influences can be very specific. For example, people who lack a particular blood group factor resist infection from just one

of the four types of human malaria. Before the British report, some experts had said it would not be surprising to detect such a genetic link in AIDS. Indeed, certain types of a genetic factor called HLA have been linked to the progression from mild to severe AIDS. But the link was much weaker, according to statistical analyses, than those the British scientists now report with the variants of Gc.

The AIDS virus spreads from person to person through sexual intercourse or exchanges of blood. One of the mysteries of the epidemic has been why some people appear to become infected more readily than others on exposure to the virus, and why the virus lies quiescent for many years in the bodies of some people while it quickly causes disease and death in others.

The AIDS virus invades certain body cells, mainly of the immune and neurological systems. Researchers hope that further research on the variations in the Gc protein will help them understand how and why the virus penetrates such cells in some individuals but not in others.

When researchers first discovered Gc about 30 years ago, they believed it was yet another of the many blood group types. But over the years scientists learned that Gc is bound to vitamin D, and it has thus also come to be known as vitamin D binding factor. Dr. Pinching's team said the role of vitamin D in AIDS is unknown.

There are several inherited subtypes of Gc and the British researchers studied the three major ones: Gc 1 fast (Gc 1f), Gc 1 slow (Gc 1s) and Gc 2. All are produced by a gene on chromosome 4. Individuals carry a combination of two subtypes based on what they inherit from their parents.

According to the study, people with the double Gc 2 combination had a greatly reduced chance of AIDS virus infection, even when they had sexual intercourse with partners known to be virus carriers.

Those with the double Gc 1f combination were far more likely to have been infected and to have become severely ill.

Lesser effects were discerned in people who had one Gc 2 or one Gc 1f subtype in combination with others, but the scientists said the implication of such mixes needed more study. Nor was the implication for AIDS vulnerability of the Gc 1s subtype clear, they said.

According to the study, 54 percent of the British population have at least one Gc 1s subtype; 29 percent have at least one Gc 2 subtype and 18 percent have at least one Gc 1f subtype.

The British researchers found that the distribution of different Gc subtypes among homosexual men, so far the most frequent victims of AIDS in North America and Europe, did not differ from the distribution among heterosexual men.

The three subtypes have different biochemical characteristics, including association with different amounts of a substance called sialic acid. Gc 1f has a double dose of the acid, Gc 1s has a single dose and Gc 2 has no sialic acid.

The British scientists suspect that sialic acid in some way helps so far the most frequent victims of AIDS in North America and Europe, did not differ from the distribution among heterosexual men.

It is by destroying so many T4 cells that the AIDS virus paralyzes the immune system, leaving victims prey to a variety of microbes that under ordinary circumstances can be fended off by the body.

James Thomas Kruger, 69, South African minister of justice during the 1976 Soweto riots and when the black nationalist Steve Biko died in 1977, Friday at his home near Pretoria after recent heart surgery.

Barcelona Bank Bombed

Reuters

BARCELONA — A bomb that the police said was probably set by Catalan separatists exploded here early Saturday outside a branch of Banco Central.

DOONESBURY

HI, I'M SAL DOONESBURY, AND I'D LIKE TO WELCOME YOU TO THE DISTRICT FOR IMMEDIATE CONSIDERATION. POPULARLY KNOWN AS MR. DOONESBURY.

AS DISTRICT SALES MANAGER, TRAINING, YOU ARE HERE TO LEARN THE DOONESBURY WAY OF LIFE. IT MAY BE THE MOST IMPORTANT COURSE OF INSTRUCTION YOU EVER TAKE!

WHEN YOU SEE MR. DOONESBURY, YOU'RE SELLING HOME, YOU'RE BEING PART OF THE SOLUTION, YOU'RE BEING NO TO A HUNDRED OF SOCIAL PROBLEMS!

OF COURSE, YOU'LL ALSO BE WINNING FABULOUS PRIZES!

SAL, HOW MANY POINTS FOR THE CATCHES WIT?

Sal Doonesbury is a cartoon character created by Garry Shandling. He is a man with glasses, a mustache, and a suit, who is often seen in a state of confusion or frustration. The comic strip is set in a world where he is a sales manager for a company called "Doonesbury Way of Life."

Obafemi Awolowo, Nigerian Politician, Dies at 78

The Associated Press

LAGOS — Obafemi Awolowo, 78, one of the most influential Nigerian nationalists before independence, died Saturday in his hometown, Ikenne, in Ogun state.

Mr. Awolowo, a lawyer, publisher and politician who became leader of the Yoruba, one of Nigeria's three main ethnic groups, was premier of the self-governing Western Region from 1954 until independence from Britain in 1960.

He played a major role in the constitutional conferences in London and Lagos that paved the way for independence.

Mr. Awolowo led the opposition in Nigeria's first parliament. In 1979 and 1983 he ran for president, losing both times to Shehu Shagari.

When Mr. Shagari was overthrown by a military coup on Dec. 31, 1983, Mr. Awolowo returned to private life.

Other deaths:

Sadamichi Hirasawa, 95, believed to have been the world's longest resident of death row, Sun-



Supporters of Corazon C. Aquino at the final Manila campaign rally of the Laban grouping.

A Test for Aquino in Legislative Vote

By Seth Mydans
New York Times Service

MANILA — Filipinos go to the polls Monday for legislative elections that will restore a complete government structure in the Philippines.

The two-month campaign closed over the weekend with a rally by supporters of President Corazon C. Aquino and a burst of television advertising by some of the nearly 1,000 candidates running for 224 legislative seats.

The legislature will replace the Parliament that was created by former President Ferdinand E. Marcos and abolished by Mrs. Aquino more than a year ago.

Traditional politics have reasserted themselves in the campaign, which has been a contest of personalities rather than issues.

There also were reports of violence and dirty tricks.

Mrs. Aquino's candidates are expected to win most of the seats. But a host of variables makes the margin of victory difficult to predict.

The president has urged voters to select her 24 candidates for the Senate. Her team has one main plank in its platform: They are "Cory's candidates."

For the first time since Mrs. Aquino came to office in a military-civilian revolt in February 1986, her government does not seem to

be in danger of being overthrown. This could be a disadvantage, analysts say, because she and her candidates have lost the main issue that helped her to win a wide mandate in the constitutional plebiscite in February.

Herald Tribune

Published With The New York Times and The Washington Post

Unless Governments Act

When the OECD ministers meet tomorrow, the prospects before them for the next few years will be poor — unless some governments take action. The world needs judicious shifts of policy to stimulate economic growth outside the United States. That means a mixture of more relaxed budget and monetary policies.

There have been times when stimulus to demand has been unfortunate: often in Britain, in France in 1981, and notably under the first Reagan administration. But this was because the dose was administered by the wrong countries at the wrong time, or applied too forcefully. Isolated errors should not invalidate approaches to economic policy that can be helpful when applied wisely.

The OECD world — the richer countries — needs economic growth of some 3 percent just to stop present problems of unemployment and world debt from getting worse. Given the size of those problems today, growth should be even faster for a time. But the forecasts of the non-political OECD staff fall well below the minimum need — unless policies change.

Unfortunately, few countries can move unless West Germany and Japan do so first, but both have so far stayed single-mindedly wedded to their ambitions — no doubt laudable in the longer term — to get their budget deficits down. They have been oblivious of whether this is appropriate in the shorter term. Excessive concentration on the short term in the past

has swung to virtual neglect of it today.

If economies continuously fail to grow at satisfactory rates, it is not just the debt and the debt failures that stretch out. The whole medium-term strategy of OECD countries is put at risk. A major aim of these countries is to introduce more flexibility into their economies, so that labor and capital move out of rust-belt sectors and into the expanding ones, and so that economies no longer demand that when sales of teapots decline, the teapot industry be supported by subsidies and protection. Painful progress has been made away from the teapot syndrome, but flagging growth will put this at risk.

The OECD meeting will not be the first attempt to tackle these problems. This year has already seen failed meetings between the five, or seven, biggest countries, plus the latest empty Reagan-Nakasone assignment. It is not obvious that agreement between the major powers will be easier in the 24-country OECD forum. The smaller countries from Scandinavia, Benelux and the Antipodes may be constructive, but they do not carry big guns. Still, this week's OECD meeting could pave the way for more meaningful commitments at the summit of the seven biggest countries in June. If it does not — if we are just told to be patient — there will be further losses: of face for the statesmen and of faith by the markets. Neither commodity is in plentiful supply.

INTERNATIONAL HERALD TRIBUNE

Hedging Against Folly

The first arms control agreement that the Reagan administration has negotiated with the Soviet Union is a modest affair worth modest celebration. It would set up centers in Washington and Moscow to give advance notice on nuclear and missile tests and major military exercises. It gives explicit form to the idea that the systematic exchange of information can serve the security of each side.

In failing the agreement, President Reagan described it as a practical measure undertaken to reduce the risk of conflict, "particularly nuclear conflicts that might result from accident, misinterpretation or miscalculation." It is hard to see how this limited agreement to exchange information — information that already is routinely exchanged in another channel — will serve the deep and vital purpose of reducing nuclear risk. Still, it is useful for the president to underline the purpose. Presumably he views this agreement as something that can be built on.

Most public and official attention to arms control centers on regulating numbers and kinds of weapons. But by any sober reading, the keenest dangers of nuclear arms arise not from their simple existence but from the

uncertainties of intent and response that they stir in the minds of those who control their use. This was the idea that stirred Senator Sam Nunn five years ago (Senator John Warner soon joined him) to launch an inquiry into establishing "nuclear risk reduction centers" in the two capitals. They asked whether jointly staffed centers could not keep watch on nuclear-related activities, including proliferation developments and strategic dialogue, and even tend certain crises — unexplained explosions or terrorist threats. They successfully pushed the White House and the Kremlin to engage the issue.

It would be good to think that the whole apparatus of government in Moscow and Washington already constitutes a "nuclear risk reduction center" and that it may be redundant to set up a separate office to handle some part of that basic national function. It is true, too, that no new mechanism or procedure can ensure a safer result. Yet there is comfort in knowing that good minds in both capitals are starting to work together to hedge against nuclear risk. The practical and bureaucratic hurdles are considerable. The need is supreme.

— THE WASHINGTON POST

Patriots or Rogues?

The first week of Iran-contra hearings quickly displayed the harsh dilemma facing the Reagan administration. The testimony of the first witness, a retired Air Force general named Richard Secord, threw the untenable choice into sharpest relief: whether to describe those who participated in the Iran-contra affair as patriots or as rogues.

The White House can label General Secord and most of those who will follow him to the stand as patriots. The president, it will be recalled, has already declared Oliver North to be a national hero. If they were patriots pursuing the national interest and doing the president's bidding, then the administration admits that it deliberately evaded the law. Congress had forbidden commerce with terrorist states like Iran and had banned direct and indirect military aid to the Nicaraguan rebels. If, however, they were rogues pursuing a private policy, some of them inside the administration and some outside, the White House must explain why they were given such extensive support by the Departments of State and Defense and the Central Intelligence Agency. Above all, it must explain why President Reagan and his cabinet officers could not or would not control their subordinates.

General Secord portrayed himself as a patriot, ready to tell his story without resorting to Fifth Amendment protection. He insisted that he acted under White House orders. Yet this patriot balked at showing Congress the full finances of the operations. That makes all the more intriguing the fascinating trails of money and power that lie ahead. If so ostensibly willing a witness can

prevent Congress from fully tracking the money, what can the committees expect from the patriots or rogues who will follow?

General Secord was conscripted as a private citizen but clothed by the White House with the power to supply a small Central American army and negotiate arms sales to Iranian hostage holders. As a civilian, he carried out missions forbidden by Congress and disavowed by the president — whose oath says he will faithfully execute the laws.

Within a few years, General Secord amassed at least \$47 million by selling American weapons at huge profits. His assets were swelled by donations from private citizens dudded by the administration in the name of charity. Then, with the Iran-contra scandal about to explode, this patriot offered to sell back to the United States the assets it had already paid for. On the witness stand he displayed still more nerve. He proposed giving the proceeds of his various transactions, proceeds still on deposit in his partner's name in Geneva banks, to the William J. Casey Fund for the Contras. General Secord still assumes that these are private funds that could be given to charity.

The Secord operation combined the worst of two worlds: covert abuse of government power and the private sector's independence from accountability. The challenge to Congress is already clear. How to write rules curbing potential patriots and rogues without crippling the power to deal flexibly with foreign policy? To learn what it must do, Congress needs first to learn much more about what has been done.

— THE NEW YORK TIMES

Other Comment

For and Against Muckraking

Gary Hart was not the first presidential hopeful suspected of having extramarital affairs, although he was the last for the foreseeable future. John Kennedy was left alone by the press because he was generally discreet and was regarded as an aspiring politician of presidential caliber. Mr. Hart's extraordinary behavior, however, inevitably aroused journalists' muckraking instincts. He was flagrantly indiscreet and had yet to prove himself a suitable candidate. His flaw

found him out, which makes the case for muckraking journalism. The Miami Herald's story will rightly be remembered.

— Louis Heren, *The Sunday Times (London)*

Hypocrisy, twin sister of puritanism, has been the dominant note in the revelations.

— El País (Madrid)

Narrow-minded morality can play a legitimate role in relations between individuals but is unfit to decide if someone is eligible for the responsibilities of the presidency.

— De Volkskrant (Amsterdam)

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Director of the publication: Walter N. Thayer.

Editor for Asia: Michael Richardson, 5 Convent Road, Singapore 0511. Tel. 472-7768. Telex RS56928.
Managing Director, Asia: Makin Glen, 30 Gloucester Road, Hong Kong. Tel. 5-8610616. Telex 61170.
Managing Director, U.K.: Robin Mackintosh, 63 Long Ave, London WC2. Tel. 836-4802. Telex 262009.
Gen. Mgr. W. Germany: W. Laubach, Frankfurt, 15, 6000 Frankfurt/M. Tel. (069) 736-53. Telex 416721.
Pres. U.S.: Michael Conroy, 820 Third Ave, New York, N.Y. 10022. Tel. (212) 552-3892. Telex 427173.
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OPINION

Farewell to Both Moderate Alternatives

By Allister Sparks

JOHANNESBURG — White South Africans have chosen the path of Ian Smith.

By their lurch to the right in last Wednesday's general election, they demolished the hope that the country's racial conflict might be resolved by peaceful constitutional change. Instead, like Mr. Smith and his white Rhodesians, they chose to close ranks against their black fellow countrymen and the world and to cling to white minority control for as long as possible.

It is a course that will have the same inevitable ending as it did with their northern neighbor. It will succeed for a while, but will produce the same cycle of violent resistance and repression, with increasing international isolation, that will slowly bleed the country to debilitation after causing much grief and bitterness. Which is why a dismayed Archbishop Desmond Tutu said on Thursday that South Africa had entered the "darkest age of its history."

There have always been two theoretical possibilities for averting a racial civil war in South Africa through negotiated constitutional change.

One was by working through patient political pressure within the ruling National Party, which has been the strategy pursued for years by the Afrikaner verligte. These "enlightened" reformists figured that ethnic loyalty was such that the party could never be defeated at the polls, given the Afrikaners' numerical dominance of the 4,600,000 white population. So the only realistic way to work for reform was to remain inside and quietly try to influence the leadership.

The second possibility, favored by the predominantly English-speaking liberal opposition, was to try to promote a split in the National Party so that an alliance could be formed with the breakaway verligte that could win enough seats to take over the government and begin negotiations with the black majority.

Both notions have now been shattered.

First to go was the verligte strategy. The defection of Denis Worrall, the former ambassador to Britain, and two other prominent verligte who ran for election as independents, together with a revolt in support of them by a large number of academics at Stellenbosch University, the intellectual fountainhead of Afrikaner nationalism, signaled a decision by the verligte that the insider strategy was no longer viable.

The brain-trustees of Stellenbosch had tried to influence President P.W. Botha, and at first they thought they were succeeding. But as his complicated three-chamber parliamentary system for extending limited political rights to the "colored" (mixed race) and Indian minorities turned into a fiasco, as unrest broke out in the black townships and as the world turned to sanctions, Mr. Botha became more remote and autocratic, and they realized that his willingness to reform had always been strictly limited anyway.

Things came to a head at a bruising confrontation last January when Mr. Botha told the Stellenbosch verligte in the bluntest terms to get lost, and they decided the strategy was futile. They went public with a spat of resignations and public statements. The leader, Sampe Terreblanche, an economics professor, said he had finally reached the conclusion that the National Party could never be the instrument of reform.

The demise of the insider strategy produced an upsurge of enthusiasm for the alternative. The advent of the independents was the split the liberals had been waiting for since the National Party first came to power in 1948.

Colin Eglin, leader of the Progressive Federal Party, shaped his entire electoral strategy around the prospect of being able to put together a "reformist alliance" which, he hoped, could enlarge the split and become strong enough to take over the government at the next election, which under the complicated three-chamber constitution is due in only two years' time.

He stood back for the independent candidates, formed an election alliance with the small and deviant New Republic Party, which had once been a force in Natal province, and even left some



By MACNELLY in the Chicago Tribune

verligte National Party candidates unopposed as a sweetener. The idea was that if the alliance could increase its representation and Mr. Worrall and the other independents could pull off a shock win or two, this might catalyze a breakthrough by as many as 30 verligte members of Parliament whose disillusionment was said to be growing.

Last Wednesday this strategy not only collapsed, it was reversed. Thousands of white South Africans of British descent, alarmed by internal unrest, external pressures and a National Party election campaign that deliberately sharpened anti-racial fears of black people and painted the Progressive Federalists as soft on security and communism, abandoned their traditional opposition to Afrikaner nationalism and threw in their lot with President Botha. And thousands of equally alarmed Afrikaners moved from the National Party to the far-rightist Conservative Party of Andries Treurnicht.

Lawrence Schlemmer, South Africa's leading opinion poll specialist, says it was the response of

"an insecure electorate." He believes that sanctions contributed. This prompts the thought that symbolic punitive measures that cause indignation without being tough enough to compel compliance harden attitudes rather than change them.

The swing to the right all but wiped out the New Republics, lost the Progressive Federalists a third of their seats and replaced them with the Conservatives as the official opposition. This has changed the whole configuration of white politics.

For years the hardy core of white liberals was the one thing that prevented the kind of mindless laagering of attitudes that occurred in Mr. Smith's Rhodesia and other parts of Africa as white minorities there came under pressure. Now that core lies mortally wounded. Now that core lies mortally wounded. Now that core lies mortally wounded. Now that core lies mortally wounded.

The verligte are now outsiders. The government has lost the influence of its intellectual elite. It will become captive of its own revived atomism while the main pressure will be from the large number of parliamentarians who now occupy marginal seats under threat from the Conservatives.

Mr. Botha will still use the rhetoric of reform and claim that he has a mandate to proceed with it. But his is a very specific concept of reform, a modernizing rather than a scrapping of apartheid.

As David Welsh, professor of African Studies at Cape Town University, says: "There is no question now of the government talking to the African National Congress or of being prepared to relinquish white minority control. It will press ahead with neo-apartheid and step up its security actions to crush all opposition to the state."

Mr. Botha said in his final campaign speech that the government will discuss its reforms with "decent, well-balanced and peaceful" blacks. That excludes the entire spectrum of the United Democratic Front alliance, the popular community organizations and the trade unions.

They will talk about his complicated institutional conglomerate of city states, national states and self-governing states, of township councils, regional services councils and a national statutory council, all based on the principle of "own affairs" administration under overall white control.

No credible black leader will participate in these discussions. Certainly Chief Mangosuthu Buthe, the last of the credible moderates, will not. In a despairing response to the election results, Chief Buthe said he was "totally appalled" by the outcome, which had "all but destroyed prospects of negotiation."

Lacking any viable political solution, abandoned by its intellectual elite and pummed down by a perceived threat from the right, the government will try to maintain control by repression and co-optation — while white support continues to consolidate and the position of the liberals becomes regarded as aberrant and treasonous.

This will produce a rising graph of frustration, bitterness and radicalization in the black townships. As black leadership is driven underground, it is likely to turn in desperation to strategies of violence, which in turn will provide the pretext for greater repression. It is a bleak outlook.

The writer is a special correspondent covering South Africa for The Washington Post.

Irangate: Will Congress Ask the Tough Questions?

By Scott Armstrong and Tom Blanton

WASHINGTON — How did the Reagan administration set up a massive private network not just in Iran and Central America but around the world to implement secret foreign, military and intelligence policies outside the Constitution while Congress slept, as committee testimony and documents as well as the Tower report all indicate?

How did the administration fund dozens of these secret plans with foreign and private monies disguised as charitable contributions while the Department of Justice, the FBI, the Customs Service, the Internal Revenue Service and — if he is to be believed — the president all slept?

Few commentators paid attention to the opening statements by the members of the two congressional investigating committees last week. The networks even cut back to the soap operas. But those statements revealed deep conflicts within the committees. Some members wanted to wrap up the investigation quickly and get the scandal "behind us." Others staked out a high constitutional ground and implied that the systematic alterations of the constitutional balance should be addressed.

The Senate committee's Republican vice chairman, Warren Rudman of New Hampshire, used the phrase "irresponsible fiasco of the first order" in his opening statement only days after

criticizing the independent counsel for investigating "ad nauseam." Senator Rudman said Lawrence Walsh should not attempt to bring wide-ranging conspiracy indictments against participants in the Iran-contra affair, because such counts would be difficult to prosecute. Instead, he advised, Mr. Walsh should narrow his investigation to the simple counts of obstruction of justice that would restrict the scandal to the few months of last fall.

The hurry-up advocates argue that the public's right to know dictates quick immunity to key participants, quick investigations and hurried hearings. But such haste glosses over six years of abdicated congressional oversight, as the Reagan administration went "off the books" with any covert operation of which Congress or the American public might disapprove.

Mr. Walsh headed in exactly this direction last week. Guilty pleas on conspiracy counts from conservative fund-raiser Carl Chamell and public relations executive Richard Miller took the independent counsel through doors on which the congressional committees have not yet even knocked. Those guilty pleas could open conspiracy doors at the State Department and at the White House.

If congressional investigators want to explore the issues that matter most in the Iran-contra affair, they should begin by asking the right questions. Consider the core issue of foreign policy. How did more than a dozen U.S. government departments and hundreds of government employees get embroiled in an elaborate, private-public nexus of secret and largely illegal operations around the world?

Did the seemingly unconstitutional use of the petrodollars of Saudi Arabia, Brunei and Texas have its origins in other secret projects — aid to rebels in Afghanistan, aid to Angolan rebels in violation of the Clark amendment, or support for counterterrorism activities in Lebanon and Libya?

How did the Constitution's allocation of responsibility to Congress to appropriate monies for governmental action get systematically supplanted by secret official solicitations from third countries to pay for administration policy? Once solicited, why were the funds not tracked? And once controlled and laundered through private bank accounts, whose funds are they? What are the constitutional implications of the many other uses to which these funds were apparently put?

Congress should ask similar questions about defense policy.

To what extent do such military arrangements abroad, secret as they were from Congress and the Ameri-

can people, expose the United States in ways not even yet contemplated, and possibly increase the likelihood or even necessity of military intervention around the world?

What role have the Pentagon's top-secret intelligence agencies played in U.S. counterterrorism activities over the past six years? In Oliver North's network? In Richard Secord's recent governmental and business dealings? What relationships to the Pentagon's special operations programs have General Secord and his business associates maintained in the past six years? How divisible are their quasi-official governmental roles from their private profit-making roles? To what extent were these elaborate procedures and arrangements primarily for the purpose of disguising them from Congress and the American people?

How do defense contracts come to include classified compartments for the funneling of covert operations funds? Who in the Pentagon or any other agency audits those funds?

To what extent are extensive secret arrangements in covert arms sales duplicated in secret aspects of congressionally approved arms sales? Were big arms transfers to Saudi Arabia, Egypt, El Salvador, Honduras, Israel, Pakistan, South Korea, Taiwan and elsewhere used to disguise systematic diversions for intelligence, counterterrorism and other secret purposes?

If the president and Congress continue to conveniently agree that the premier question is "What did the president know and when did he know it?" the deeper constitutional questions will not be addressed.

Unless Congress allocates the necessary time and effort to determine how far "off the books" security policy has gone, the newly uncovered private network formed to carry out secret policy will become a permanent feature of the constitutional system.

Mr. Armstrong is executive director and Mr. Blanton is director of planning and research at the National Security Archive, which has just published "The Documented Day-by-Day Account of the Secret Military Assistance to Iran and the Contras." They contributed this comment to The Washington Post.

Hart: A Merciless Rush to Judgment

By Tom Wicker

NEW YORK — It was never clear that Gary Hart would be the Democratic nominee in 1988.

His downfall and political demise are a sad spectacle, nonetheless.

Politically, even many who did not support Mr. Hart might have realized that he was the best prepared and hardest-working of the candidates — not, perhaps, in campaign exertions, but in terms of the serious issues with which presidential elections should deal. In part because of his almost successful 1984 campaign, and in part because of his devotion to "new ideas" about a new era of American life, no other candidate in either party has as yet shown Mr. Hart's scope, depth and intellectual vigor.

His departure opens the way to other candidates — those already running, those who might now see more opportunity or a greater responsibility. The likelihood that Senator Sam Nunn of Georgia ultimately will enter seems enhanced. So is the slimmer possibility of a late-starting campaign by the most-talked-of noncandidate, Senator Bill Bradley of New Jersey. As for New York's Governor Mario Cuomo, when he declared himself out he could be reasonably confident that the Democrats had an experienced and able alternative. Now that is much less clear. Mr. Cuomo might think that he has good cause to reconsider his position in the light of changed circumstances.

But if other candidates now see more opportunity, they may face

more competition, with no candidate dominating the race. If so, the likelihood of a contested Democratic convention may increase — although in the age of primaries that is still a remote prospect.

All those considerations are speculative and subject to events. But it seems altogether clear that presidential campaigns, already in so many ways demeaning to those who go through it, has been further trivialized. Questions of public policy have been further subordinated to personal matters. Imagery — of the "family man," of the man of "values" — has been confirmed again, no matter how false, as the main matter. And once again a press that lays claim to a public service ethic has shown itself at best attentive to sensation and scandal.

That is not just a criticism of The Miami Herald for its deplorable stake-out tactics which, if used by police agencies on political candidates, would be denounced by The Herald and most other press organs. Just as unsettling was the sight of the sharks, once the water was bloodied. Early polls showed the public as dubious about the press, in this case, as the voters were supposed to be about Mr. Hart. So editors and reporters may yet have cause to wonder where this kind of zeal leads. Who will be staked out next? For what "public service" purpose?

In the swamp of pop psychiatry

already filling news columns and air time, the conventional wisdom seems to be that Mr. Hart "self-destructed," perhaps subconsciously doing so on purpose. His purported adventures with other women, it is endlessly said, showed irredeemably bad judgment in a presidential candidate, proved Mr. Hart a "risk taker" who could not be trusted with presidential powers in a crisis, and demonstrated a fatal flawed character unworthy of the White House.

That is all very glib. Some of it may even be true. Mr. Hart confessed to bad judgment in whatever happened with Donna Rice. At root, however, what destroyed him was not so much his judgment, questionable as it was, but the judgments of others on what they took to be his behavior.

Every American had a right to make such a judgment — that a "womanizer" ought to be punished, at least could not be supported for president. But much of the talk about his judgment and character seems to me designed to put a good face on the intolerance of many who ignored the Biblical injunction to "judge not, that ye be not judged."

For much of his troubles of the past few days, Gary Hart has only himself to blame. For the fact that those troubles destroyed his presidential candidacy overnight, in a merciless rush to judgment, an eager press and an avid public must ask themselves if they, too, might not now have much to regret.

The New York Times

Start Moves Back From The Brink

By Jim Hoagland

MADRID — Out of the wild gyrations of the dollar, the yen and the mark over 18 months come questions that now have to be answered by the politicians instead of the economists. What relationship do shifting currency values have to the accumulation or protection of national wealth? Where does this tripartite tango of currencies leave economic growth prospects?

Time was when exchange rate swoops and swings plagued mostly the tourist cashing travelers' checks in Madrid. But American consumers got a whiff of this currency war last month when Chairman Paul Volcker of the Federal Reserve nudged U.S. banks into raising their prime rate by a quarter of a percentage point.

Mr. Volcker intervened specifically to make dollar investments attractive abroad and to stop the battered greenback's continuing decline. But his action was also the clearest possible sign

The OECD ministers will be told that bolder action is needed.

that the fundamental imbalances in the world economy have remained beyond the reach of the currency-centered strategy directed by Treasury Secretary James Baker.

More currency problems, more U.S. interest increases and growing risks of recession are likely unless industrialized nations reach agreement on new economic strategies at two key meetings within the next month.

Such agreement is economically attainable. The American, Japanese and West German economies are strong enough to permit enlightened macro-economic policy-making. It is the macroeconomics of the situation that stink.

For 18 months the United States has unwisely focused on the bilateral aspects of a trade problem that is in its nature a global one. By manipulating the dollar at times against the yen, at times against the mark, as a substitute for convincing action on the U.S. budget deficits, the administration has continued to try to master a Philo solution for Sony-age problems.

The second part of Mr. Baker's campaign to head off protectionism in Congress and to get other countries to solve American problems is faring only slightly better. Again, the bilateral focus on a global problem is ultimately self-defeating. Even if Japan and West Germany did all that Mr. Baker asks, and doubled their growth rates at the present levels of the Baker dollar, the U.S. trade deficit would probably dip no more than 10 to 15 percent in the next two or three years.

Each bilateral quick fix has fed a new problem. We now see the dollar dive feeding interest-rate increases, which exacerbate the debt burden for the most severely hit countries. Trade will fall, growth will remain sluggish.

In Paris this week, Mr. Baker and the other finance ministers of the OECD will be told that bolder, more coordinated action is needed if a developing pattern of slow growth is to be broken. They will hear a comprehensive report from the OECD secretariat on the structural adjustments needed to cut governments free from politically based subsidies that encourage or protect inefficient farming and outdated industries. A commitment to wide-ranging structural reform would signal to the markets a new willingness to concentrate on the underlying problems of world trade.

And early next month the heads of the seven major industrial countries gather in Venice for an economic summit. Although these meetings normally provide little real impetus for change, Venice could serve as a dramatic exception. It is probably a last opportunity for President Ronald Reagan, Prime Minister Yasuhiro Nakasone and Chancellor Helmut Kohl to show that they can overcome their domestic political weaknesses and divisions and make mutual sacrifices that would be explained at home as necessary for reinventing the global economic balance.

Binding commitments from these leaders to a program of tax increases and deficit reduction for the United States, trade reform for Japan and government leadership in West Germany that would restore investor confidence could persuade the markets that these leaders have enough vision and strength to walk back from the economic brink.

But if Venice turns out to be politics as usual, we are headed for another full year or more of the world economy drifting like a rudderless vaporesque through the canals of currency wars that benefit primarily the banks and the speculators.

The Washington Post

IN OUR PAGES, 75 AND 50 YEARS AGO

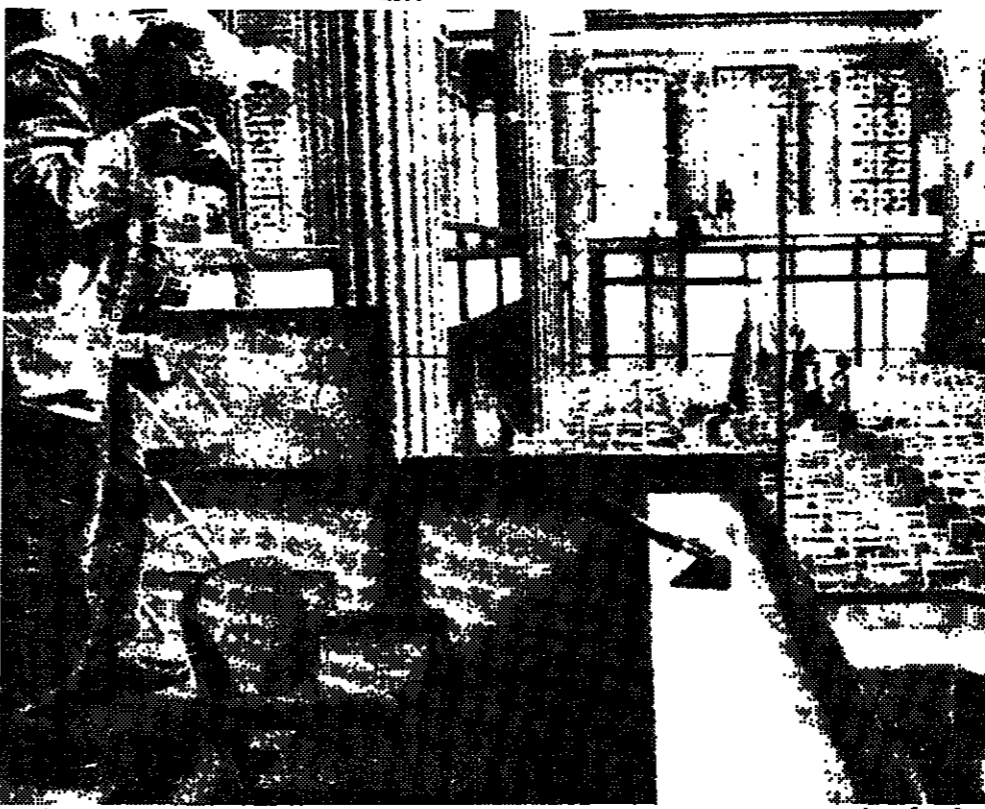
1912: On Fleet Street

LONDON — Two London halfpenny morning papers on the Liberal side will be amalgamated [on May 13] when the "Morning Leader" will disappear into the "Daily News." This is only the first act of the approaching revolution in Fleet Street. The second will be of a far more sensational character, and will be concerned with the Unionist newspapers. No fewer than four of these are practically in the market, and great changes are occurring in connection with the proprietorship of others. These factors are bound to affect each other in a manner that in the long run will profoundly alter the organization of the newspaper world in London. There will be more amalgamations, and in the end the public's power to choose will be circumscribed — for time — to an extent it little imagines.

1937: Mandates Attacked

BERLIN — The system of mandates has failed and no pacification of the world will be achieved until it has been dropped, Professor And Freytag-Loringhoven, the renowned German jurist and chairman of the German Committee for Colonial Rights, proclaimed before the meeting of the Academy for German Law [on May 10]. According to Professor Freytag-Loringhoven, Article 22 of the League statutes was created as a compromise between President Woodrow Wilson's promise for fair settlement of the colonial question on the one hand, and the secret treaty of the entente on the distribution of German and Turkish property on the other hand. "The system of mandates which embodies one of the great lies of Versailles will be wrecked by its own insincerity," he predicted.

An Unhappy Past Is on Trial As France Accuses Barbie



Preparing for Trial: Top, Barbie's lawyer, Jacques Vergès, left; Presiding Judge André Cerdini, middle, and Fortunée Benguigui, a prosecution witness, with photo of her sons killed in Auschwitz. A concentration camp tattoo is on her forearm. At left, a photographer in the Lyon courtroom takes a picture of the seat where Barbie will sit, protected by a glass screen.



Scenes from the war days: Top, German soldiers watched prisoners being transferred to a train in Lyon. Middle, children from an orphanage in Izieu, France, before being deported to Auschwitz. Most were Jews. Bottom, some of the 22 Frenchmen who were executed by the Germans near Lyon on June 13, 1944.



U.S. Role in 1947-51: Helping Nazi Flee

Barbie's 'Handlers' Recall Their Ward

This excerpt from *The New York Times Magazine* covers one of the least understood elements in the case of Klaus Barbie, the accused Nazi "Butcher of Lyon," the period when he worked as an agent for the U.S. Counter Intelligence Corps, from 1947 to 1951.

By Ted Morgan
New York Times Service

The trial of Klaus Barbie opens Monday in the French city of Lyon, and when it does, it will take an act of will to reconcile the frail 73-year-old man in the dock, whom one might imagine stooped over a flower bed in the garden of his retirement home, with the crimes he is accused of committing.

What, this kindly looking and rheumy-eyed old widower, whose voice can barely rise above a whisper, was the SS captain in Lyon who signed the order sending Jewish children to their deaths at Auschwitz? This senior citizen personally tortured men and women, was responsible for sending thousands of Jews and members of the French Resistance to concentration camps, and earned the sobriquet "Butcher of Lyon?"

It is because it does not seem possible that this trial is so important. France is placing itself on trial and facing for the first time the truth that not only did the collaborators far outnumber the Resistance fighters, and not only did the collaborators fully accept the idea of the "final solution," but that within the ranks of the Resistance, there were traitors who sold out their colleagues.

Since Barbie was extradited to France from Bolivia four years ago, his trial has been delayed numerous times, prompting charges that prominent Frenchmen in business and govern-

ment are afraid of what may be revealed about their collaborationist pasts.

But a key element in the Barbie case — though one that will scarcely surface during the trial — is the American involvement with Barbie at the close of the war, itself the principal reason it has taken almost 44 years to bring the "Butcher of Lyon" to justice. For Barbie was recruited as an agent by the U.S. Army Counter Intelligence Corps in 1947, and worked for it until 1951, when Americans arranged his escape to Bolivia.

Barbie's 1947 recruitment by the corps was first formally disclosed in 1983, in a Department of Justice report by Allan A. Ryan Jr. entitled "Klaus Barbie and the United States Government."

What did not come out in that report, though their names were included, were the personal recollections of the young soldiers who had been Barbie's "handlers."

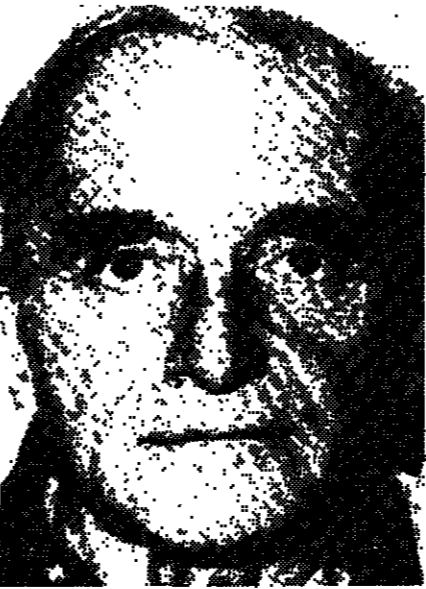
Robert S. Taylor, who had been part of a Counter Intelligence Corps team searching for Gestapo records in county seats and was working as operations officer in Memmingen, near Munich, was to be the first of Barbie's American handlers. The 68-year-old former dean of information studies at Syracuse University in New York recalls the day in March 1946 that events were set in motion.

A man named Kurt Merk, who had been a lieutenant in the Abwehr, the German military intelligence, came to his office to volunteer his services. Native intelligence talent was in short supply, and Merk was an avowed anti-Communist who, later on, often told Taylor that the Americans and the Germans should have teamed up and finished off the Russians.

On April 10, 1947, Merk told Taylor that he



Photo at left is believed to show Barbie during the war; at right, Barbie recently.



had met an old friend from wartime service in France, a man named Klaus Barbie who was available for intelligence assignments. Taylor recognized the name, which was on two Allied lists of wanted war criminals, as a target of a recent "swoop" operation against an SS underground group; Barbie was the only former SS officer who had escaped arrest.

On April 14, Taylor informed the commander of his CIC region in Munich, Lieutenant Colonel Dale Garvey, of Barbie's availability, and they agreed that he would be a valuable asset, in spite of his "wanted" status. On April 18, Taylor met Barbie at Merk's apartment in Memmingen.

Taylor recalls that he was left with a favorable impression of Barbie, who presented a sanitized version of himself, omitting mention of his actions in Lyon. On May 27, Taylor sent the following report to CIC headquarters in Frankfurt: "Barbie impressed this agent as an honest man, both intellectually and personally, absolutely without nerves or fear. He is strongly anti-Communist and a Nazi idealist who be-

lieves that he and his beliefs were betrayed by the Nazis in power."

Major Earl S. Browning Jr., who was operations officer for the CIC headquarters in Germany, located in Frankfurt, recalls the shock he felt at learning that Barbie had been recruited as an agent.

Sitting in the book-lined basement recreation room of his home in Fairfax, Virginia, Browning, now 69, recalled the day in October 1947 that his assistant, James H. Radloff, had burst into his office and said: "Garvey's double-crossed us. After having us chase after Barbie, he is sitting in Munich using him as an agent."

On Oct. 29, Browning directed the Munich region of the CIC to arrest Barbie and send him to the European Command Intelligence Center at Oberursel, near Frankfurt, for "detailed interrogation."

The Munich region complied with Browning's orders in mid-December. Barbie was arrested and questioned until the following May. Elusive as ever, Barbie sidestepped all damaging admissions, telling only what was already

known — that he had been a member of the SS.

Significantly, the subsequent report included the first appearance of the "he-knows-too-much" argument that would loom ever larger in the Barbie case: "Because of Barbie's activities with Region IV CIC during 1947, it is not deemed advisable to intern him for his affiliation with the Waffen SS," it stated. "His knowledge as to the mission of CIC, its agents, subagents, funds, etc., is too great."

Barbie returned to his intelligence activities in Memmingen. In June, he found he had been assigned to a new handler, Erhard Dabringhaus, a German-born American soldier. Barbie benefited from the fact that his CIC handlers kept changing while he remained in place, so that, in some cases, he came to know more about the CIC's espionage operations than they did.

Sitting by the side of his pool in Sarasota, Florida, Dabringhaus, a 70-year-old retired college professor, remembered that Barbie kept pressing him for American dollars to cover travel expenses. As time went on, the situation between Barbie and Merk seemed to deteriorate over the allotment of funds; Barbie was getting cash, while Merk was being paid in cigarettes and coffee. "If the Americans found out what Barbie did in France," Dabringhaus remembers Merk telling him, "the atrocities he committed — not even your General Eisenhower could protect him."

"What was he doing?" Dabringhaus asked. "He was the head of an *Einsatzkommando* with 120 men," Merk said. "I once visited him in Montluc prison in Lyon, and in the basement he had some French Resistance fighters hanging by their thumbs, day after day, until they died."

Dabringhaus reported what Merk had told him to his superiors in Munich. No trace of his report has survived, but he says he was told: "Don't get excited. We'll turn him over when he's no longer useful."

In October, Dabringhaus was reassigned after serving as handler for only four months. In Frankfurt, Major Browning, the operations officer, was still urging the Munich region to drop both Barbie and Merk. In April 1949, after three years as an agent, Merk was dropped, but Barbie was allowed to stay on, focusing on Communist Party activities.

Barbie's handler now was Eugene Kolb, who had interrogated German prisoners of war as a CIC officer during the Battle of the Bulge. Kolb found Barbie shrewd and competent; he spoke freely of his work in Lyon against the Resistance, but he impressed Kolb as being "clean."

In May, a clipping from a Paris newspaper, with the headline "Arrest Barbie Our Torturer," was brought to Major Browning's attention. "During the occupation," the article said, "he burned his victims with an acetylene torch to make them confess during interrogations which lasted more than 48 hours." Major Browning showed the clipping to his commanding officer, Colonel David Erskine, who dismissed it.

Kolb, like Colonel Erskine, did not give the article much weight. The sources were former Resistance fighters, most of them leftist if not outright Communists, and from what he knew of Barbie, the use of a blowtorch was not in character.

Major Browning, however, ordered Kolb to interrogate Barbie about the article, which Kolb did. Kolb reported on July 20, 1949, that Barbie had been "discreetly interrogated ... with negative results."

Although Kolb's report silenced Major Browning, after the publication of the Paris article, Barbie was dropped from CIC records

as a precaution. In every practical respect, however, his situation remained the same. He continued to live in a CIC safe house in Augsburg as a paid informant.

In the summer of 1949, meanwhile, pressure in France to find Barbie was mounting. Resistance groups clamored for his arrest. The Barbie case entered diplomatic channels.

At a May 4 meeting at CIC headquarters in Frankfurt, Colonel Erskine decided that Barbie should not be placed in the hands of the French. Once more, events conspired to aid Barbie, for Major Browning, who would have objected to the decision, had been replaced as operations officer by a new man who was not familiar with the case. Again, the reasoning was that Barbie knew too much.

A curious situation arose, in which the CIC single-handedly blocked Barbie's extradition by professing not to know where he was. By this time, the State Department was getting "strong notes" from the French demanding that Barbie be surrendered. The U.S. Embassy in Paris was embarrassed by charges that the Americans were harboring him. The U.S. High Commission for Germany, under John J. McCloy, suddenly had the Barbie case dumped in its lap. But when the commission queried the CIC about Barbie's whereabouts, the CIC said his employment had been discontinued in May 1949 and that his whereabouts were unknown. In fact, Barbie remained in Augsburg through the summer and fall of 1950, recruiting agents and conducting interrogations.

But the CIC had painted itself into a corner. With the extradition process under way, if Barbie was picked up, the deception would be found out. Barbie became, in CIC parlance, a "difficult disposal case."

At length, the CIC decided to use a "rat line" developed by its unit in Austria to spirit compromised agents and defectors from the East bloc to South America, via Italy.

On Feb. 21, the Combined Travel Board issued to one Klaus Altman a temporary travel document "in lieu of passport for stateless persons," valid for travel to Austria and Italy. The Italian Consulate in Munich gave him a transit visa for travel through Italy. On March 9, two CIC agents accompanied Barbie, his wife, Regina, their 9-year-old daughter, Ute, and 4-year-old son, Klaus-Georg, by train from Augsburg to Genoa, arriving March 12.

Barbie and his family boarded the Italian vessel *Corrientes*, bound for Buenos Aires on March 23, joining what Marcel Ophüls has called "the diaspora of the torturers." Then Barbie and his family took a train to La Paz, Bolivia. He remained in South America for 32 years.

In France the generation that had known the war did not forget Barbie, and when it became known in 1983 that he had finally been extradited, thanks to the cooperation of the first civilian government in Bolivia in many years, and would stand trial on the very ground where the blood of his victims had been spilled, there was rejoicing. But there was also an uneasy feeling, which helps to explain why it has taken four years to bring him to trial.

The uneasiness in the Barbie case stems from the likelihood that the trial will tear France apart. Barbie, according to his lawyer, Jacques Vergès, will not go down alone, but will turn his trial into the trial of all France. The extent of French involvement in Nazi crimes is known. In fact, 90 percent of the more than 76,000 Jews deported during the German occupation were arrested by the French police, not the Germans. When the trial begins, the circle will close, with Barbie standing in the dock as both accused and accuser.

BARBIE: On Eve of Trial, Nazis' Victims Honored

(Continued from Page 1)

death for war crimes twice in absentia in the 1950s, still had to be tried.

Mr. Vergès has said that his client will contest all the charges against him. Because of France's 20-year statute of limitations, the original sentences are no longer valid and the charges at his earlier trials cannot be repeated.

Mr. Vergès has long threatened that Barbie will name Frenchmen who collaborated with the Nazis, implying that he will humiliate some prominent figures.

Levers for the victims say, however, that they doubt Barbie's ability to do so.

They say that because Barbie was based in Lyon, which was considered the center of French resistance in 1943 and 1944, he would have had little opportunity for contact with the most important collaborators, those who worked for

the collaborationist government in Vichy.

Barbie faces three charges under the "crimes against humanity" article, which requires proof of genocide or racial persecution.

They concern the deportation of 650 people, mostly Jews, to concentration camps; the deportation of 86 Jews seized at the Lyon office of the Jews of France Committee; and the deportation of 44 Jewish children from an orphanage in the village of Izieu. All the children died.

Mr. Vergès has said that Barbie will answer that he is innocent of these charges and maintain that his wartime activities were consistent with his role as an intelligence officer fighting the Resistance.

Apart from witnesses testifying to Barbie's role against Jews during the war, others, such as Elie Wiesel, who was awarded the 1986 Nobel Peace Prize, will describe the hor-

rors of the concentration camps to which they were sent.

In addition, members of the Resistance will recount their experiences under interrogation.

Barbie will take the stand at the end of the week, probably Thursday, to begin his defense, court officials said.

The trial will open at 1 P.M. Monday and Barbie will have the option of deciding whether he wishes to be filmed or photographed.

If he agrees, photographers and cameramen will be allowed into the courtroom for the first 30 minutes.

After the opening minutes, the trial will be filmed under a law passed especially for the Barbie trial, but the film will not be available for 20 years, and then only to historians and lawyers by request. The film will not be available for public viewing for a further 30 years.



Rightists demonstrate in Lyon against the Barbie trial.

PERSONAL INVESTING

FOCUS

Fund Turnover: How Important?

HOW CLOSELY SHOULD prospective mutual fund investors scrutinize portfolio turnover rates? Is there a correlation between a manager's trading activity and fund performance? Such questions have long been debated by investors, but have become particularly relevant with the increasing number of aggressive funds that turn over assets at a dizzying pace.

Like individual investors, fund managers must weigh the potential return on new investments with the costs of trading. These costs include not only brokerage commissions but also the difference between bid and offered prices for stocks, called the spread. In the quest for gains, the job of the manager is to make sure profits are not consumed by trading costs.

One measure of trading activity is the turnover rate, which can be found in fund prospectuses. To calculate the rate, the fund determines the total value of purchases and sales for the year. Then it takes the lower of those two figures and divides it by the fund's average annual asset value.

Stock funds in the United States have an average turnover rate of about 80 percent, according to Gerald Peritt, editor of *The Mutual Fund Letter*. A typical fund holds a stock an average of 15 months, he says.

According to Mr. Peritt, mutual funds with higher turnover rates generally have not been able to offset their increased transaction costs with better performance. In a recent study, Mr. Peritt divided 40 mutual funds into two groups: one with an average turnover of about twice a year, and another with turnover of about once every five years. The study showed that the mutual funds with the lower average turnover outperformed those with higher turnover by 15 percent in 1985 and 5 percent in 1986.

"The difference in performance between high and low performance funds can be traced back to trading costs," Mr. Peritt says. "The more you trade, it takes all the running you can do to stay in the same place."

OTHERS QUESTION his findings. "The studies have indicated a relationship between higher turnover rates and lower performance," says Robert Levy, president of CDA Investment Technologies Inc. in Silver Spring, Maryland. "But the difference in performance is so small that it could have been the result of statistical error."

Yet, Mr. Levy acknowledges that his own studies have generated similar results. Mr. Levy's research shows that bank trust departments, which had an average turnover rate of 33 percent, or once every three years, have consistently outperformed mutual fund managers, whose turnover rates averaged 62 percent last year.

Surprisingly, total transaction costs for fund managers average 4 percent, about the same as they are for individual investors, according to Mr. Peritt. While brokerage commissions are a smaller component, he notes, the costs associated with the spread between bid and ask prices are greater with higher volume.

On that basis, a fund manager who turns over assets twice a year would have to earn a return of 20 percent to keep pace with the Standard & Poor's 500 Stock Index 60-year annual average of 12 percent, Mr. Peritt notes. Only nine mutual funds have averaged better than that in recent years, he adds. "This body heavily against turning over mutual fund portfolios very frequently."

The average mutual fund turnover rate is on the rise, reflecting profit-taking and efforts by managers to keep up with the more rapidly rotating leadership among sectors of the stock market, Mr. Peritt says. "That generally happens in an ongoing bull market," he says. "In a bear market, it tends to go down."

INDEED, A NEW CROP of small, aggressive funds have sprouted in the last few months. T. Rowe Price's Capital Appreciation Fund, which has a turnover rate of 130 percent, tries to "take advantage of short-term profits, particularly when the market is vulnerable on the downside," says Richard Fontaine, the fund's president and manager.

"The turnover should be irrelevant," Mr. Fontaine argues. High turnover is justified by an increase in performance, he says, noting that his \$77 million fund earned a total return of 19.7 percent in its first ten months. "The bottom line is how much money you made."

By comparison, The Acorn Fund, a Chicago-based mutual fund that invests about \$500 million in small capitalization stocks, has a turnover rate of only 34 percent. Trading in these relatively illiquid stocks "can be arduous and expensive," says Ralph Wangen, the fund's manager.

"We don't try to catch every ripple in the ocean," explains Mr. Wangen, who finds turnover rates very descriptive of a fund's philosophy. "The majority of successful investors have generally done well by sitting with their funds for incredibly long periods of time."

Alex Barnum

Shifting Gears in a Volatile U.S. Bond Market

What Derailed The Rally in U.S. Bonds

A Dollar Selloff

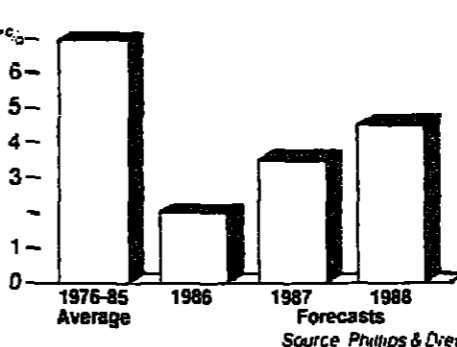
Japanese yen per U.S. dollar



Source: Hoare Govett

Inflation Anxiety

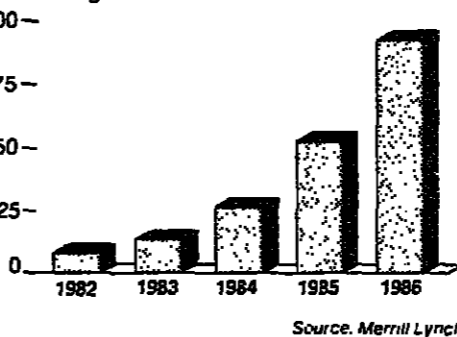
U.S. consumer price changes, annual percentage change



Source: Phillips & Drew

The Japanese Factor

Japanese investors' net purchases of foreign bonds, in billions of dollars



Source: Merrill Lynch

THE FEARS The precipitous decline in the dollar raises fears that U.S. inflation could surge, especially if the economy builds up momentum. Some commodities prices are already showing sharp rises. Another worry is that Japanese institutions would shun U.S. Treasury debt because yields are not high enough to offset the currency risk.

DEADLINE Two Nikko Securities employees confer outside the Federal Reserve building in lower Manhattan before putting in a bid for 30-year U.S. Treasury bonds.

After the bloodbath in April, higher coupons are luring buyers who see a slack economy.

By William McBride

New York

AN MACKINNON HAS A WORD for it: "monomania." That is how the senior vice president at Vanguard Group, a fund management firm in Valley Forge, Pennsylvania, describes the bond market's tendency to be obsessed with a single figure that seems to sum up its anxieties. In the past, there was the money supply, then the price of oil. Lately, the affliction has been dollar "monomania."

It was the dollar's wrenching dive to a postwar low against the yen that ignited panic among bond investors in late March. From then through the first of May, the value of long-term bonds shrank 12 percent as yields soared from 7.5 percent to 8.75 percent.

Even more unnerving was the volatility of the slide. During April, the average daily price change of long-term bonds was \$10 for every \$1,000 face amount. That seemed to erase definitively any quaint notion of bonds as conservative investments.

"I can't remember a time when market psychology has been more unstable," says David Jones, chief economist at Aubrey G. Lanston in New York, a dealer in government bonds.

Last week, the market was able to end on a hopeful note after a series of auctions of U.S. Treasury debt found adequate demand at the higher interest rates. But the question for investors in the new issues was whether the higher coupons sufficiently compensate them for the risk that interest rates could be forced even higher.

The answer from many money managers and economists is yes, and then some. In fact, they believe the fixation on the dollar has caused investors to ignore the weakness in the world economy that may result in a return to lower interest rates later in the year.

"I think the market is overreacting," says Art Micheletti, director of U.S. research for Baird, Biehl & Kaiser, a San Mateo, California, money management firm. Slow economic growth could bring long-term U.S. interest rates back down to about 7 percent by the end of the year, he says.

While other analysts are less certain that long-term

Continued On Page 8

GOLD

Hectic Sessions In the Gold Pit

The volume is evidence of the rally's breadth.

By John Meehan

TRADERS WERE ANNOYED, exchange officials flustered. But for eager goldbugs, the overwhelming volume that swamped the New York Commodity Exchange and forced it to shorten its dealing hours last week to resolve leftover trades was just another symptom of the growing interest in precious metals.

The Comex's problems began April 27 when silver prices suddenly fell 40 percent to \$7.20 an ounce. The resulting hectic trading quickly overburdened the market's computers. At the end of the day 50,000 trades were unmatched.

"The Comex just isn't used to this kind of activity," says Bette Raptopoulos, precious metals analyst with Prudential-Bache Securities. Indeed, in the five trading days preceding April 27, daily volume averaged 183,000 futures contracts, more than double the normal turnover.

Gold and silver prices have since recovered and Comex officials hope to clear their books of unresolved trades by Monday. But a growing number of analysts believe the rally in precious metals—especially gold—is just beginning.

Gold began the year at \$405 an ounce and briefly traded above \$475 on the Comex a couple of weeks ago. It has since fallen back and recovered, hovering around \$455. Similarly, silver, which has led the way in the current rally, has climbed back to around \$8.00 after a sharp correction.

The retrenchment, analysts say, was actually a healthy sign. Gold prices have been rising slowly, but steadily, since February 1985 when they stood at \$281.20. Each major step, however, has been matched by a subsequent drop in price that left

Continued On Page 8

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BOURSES

Emerging Growth Stocks, French Style

By Jacques Neher

ON THE FACE OF IT, things could not be better for the Bourse. Over the past four years, the CAC index of French stocks has more than quadrupled. Last year alone, it soared by 50 percent and it has advanced another 15 percent so far in 1987.

But a growing number of money managers are inclined nowadays to talk about the dearth of affordable growth stocks in Paris. It is a complaint that is hardly unique to the Bourse. Decent value is hard to come by anywhere thanks to the prolonged equity rallies. Yet it does mean that investors in Paris will have a tougher time.

"The market has become fully priced," says Hugh Priestley, a director with Henderson Administration PLC, a London-based fund manager. "You have to be a bit careful committing more money to it. You have to take more of a six-month view."

Indeed, finding a bargain in Paris has become quite a challenge. Brokers and research analysts have tended to limit their search to a handful of sectors, spending much of their time combing through the second *marché*, which is populated with smaller, emerging companies.

Financial services is one sector that has received a lot of attention. Analysts are especially keen on companies positioned to profit from the planned reforms on the Bourse.

Continued On Page 9



On the Bourse, traders are busy and bargains scarce.

GOLD

Hectic Dealing
Bolsters the
Case for Gold

Continued From Page 7

gold prices slightly higher than they were before. This was the case in October when prices rose to \$460 an ounce.

The rally was initially led by platinum, which soared to \$675 an ounce on belief that South Africa would cut off precious metal supplies to the United States in retaliation for trade sanctions. Prices settled back when it became apparent this would not occur.

"It's certainly not going to be a repeat of the late 1970s," says Michael Oliver, a gold analyst with James Capel & Co. in London. "Prices won't take off into the stratosphere. But we're still in a bull trend."

Although talk about the stability of South Africa arises often in the gold market, it is generally seen as a minor factor in the current price increase.

Instead, analysts attribute the latest flurry of activity in the precious metals market to concern about the weakening dollar and its inflationary implications for the United States. These same worries have already unsettled U.S. stock and bond markets, accelerating investor interest in gold as a hedge.

Two weeks ago, for example, Shearson Lehman Brothers suggested to clients that they allocate 5 percent of their portfolios to gold bullion. Some portfolio strategists have suggested an even bigger commitment.

The diversification, gold specialists say, could help offset the 100 metric tons (110 short tons) of surplus production that has plagued the market in recent years. "As more people get interested, more and more gold is getting taken off the market," says Gail Levey, who tracks precious metals for Shearson Lehman.

To be sure, not all investment strategists agree that the fundamentals are in place for a sustained rally. Hard evidence that inflation is coming back strong is sparse, some argue.

After increasing 1.1 percent in the United States last year, some experts think prices will rise between 3.5 percent and 4 percent this year — significantly lower than the double-digit rate that ignited the rally in the late 1970s and helped carry prices over \$800 in 1980.

Yet, many analysts say that double-digit inflation is no longer a necessary ingredient. A modest increase, they argue, will be enough to sustain the market. "The perception is that inflation will rise," Ms. Rappaport says. "That's the biggest factor."

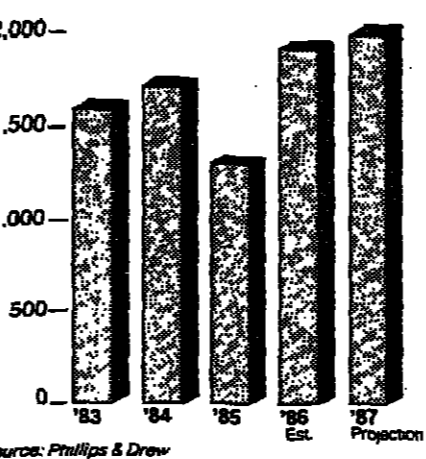
No one rules out a steeper correction. Ms. Levey says the lower support level at around \$440. Martin Armstrong, a technical analyst and chairman of Princeton Economic Consultants in Princeton, New Jersey, says the possibility of gold dropping to \$430, or to \$408 in a worst-case scenario.

Yet, many analysts do not view this as a cause for concern. Over the next couple of months, experts expect gold prices to continue to move inversely to the dollar. Only a strengthening of the dollar, they say, will derail the rally.

As long as the current uncertainties prevail, they believe, more investors will turn to gold. Already, dealers talk confidently of \$500 an ounce, although timing forecasts differ.

Gold Supply

World supplies in metric tons.
Includes scrap and official reserves.



Source: Phillips & Drew

Jack Schwager, a technical analyst with PaineWebber Inc., believes prices will gradually recover in the coming weeks. If they top the highs reached a couple of weeks ago, he says gold could quickly climb to \$500 by the summer. "I think we're nowhere near the end of this rally," he says. "But it is important to see how fast it gets to those highs."

Jack Jones, a gold analyst with Phillips & Drew in London, says prices will likely consolidate around current levels in the near term, but sees \$500 toward the end of the year.

IN MANY WAYS THE DOLLAR remains a key, Mr. Armstrong notes that gold has fallen in price in terms of other currencies, notably the yen and Deutsche mark. Until there is significant buying from investors in Europe and Asia, he says it will be difficult to sustain a rally.

"This is the first stage," he says. "The real bull market has not yet begun."

Mr. Armstrong expects the current stage — in which the increase in prices merely offsets a declining dollar — to continue in the near term. The dollar, he reckons, will drop another 15 percent in value through the summer.

By September or October, however, he believes the dollar will stabilize. At that point, gold will have dropped to its lowest point in terms of non-dollar currencies and begin to attract substantial investment from outside the United States. "We won't get above \$500 until the dollar stabilizes," he cautions.

If gold makes it above the \$500 level and shows some staying power, most analysts predict a sustained rally marked by rapid price movements. Mr. Armstrong is already talking about \$1,000 an ounce by 1989 given the fact that more investors are willing to dabble in gold than ever before.

Many analysts agree that prices will move quickly, in large part because of a greater acceptance among American investors of gold as a legitimate investment. One indication of this is the heavy volume of gold coin sales in the United States. Since it was introduced by the U.S. Treasury last October, the public has purchased over 2 million ounces of American Eagle coins.

"Once it goes," says Prudential-Bache's Ms. Rappaport, "it will go quickly."

BONDS

Bonds: Shifting Gears

Continued From Page 7

yields will retreat that much, they agree that there is no serious risk yet that the economy will overheat and drive interest rates higher.

"The economy is weak," Mr. MacKinnon argues, and not just in the United States. "We see a lot of slack in productive capacity worldwide. We wonder where the demand for credit is coming from."

Indeed, even a sharp drop in U.S. unemployment reported on Friday failed to dent the market's post-auction confidence. To some extent, that appeared to be because the 0.3 percentage-point drop in the jobless rate in April, to 6.3 percent, was seen as a tentative sign of more vigorous economic growth and thus also buoyed the dollar.

But another reason is that the recent rise in interest rates will itself act to restrain the economy, notes Robert Chantross, chief economist for Lloyds Bank operations in New York. "It's going to have particularly negative effects on the housing sector," he says. He believes that long-term interest rates are near their high point for the year.

Merrill Lynch, the U.S. investment firm, estimates that the economy will grow at an annual rate of only 2 percent for the rest of the year. With the export sectors of Japanese and West German industry burdened with strong currencies, those two economies may not manage to match U.S. growth, according to estimates by Phillips & Drew, the British brokerage firm.

BACKERS OF BONDS say that with slack economic growth, the Federal Reserve will be reluctant to tighten credit much beyond the "nudge" upward in short-term rates that Chairman Paul A. Volcker recently acknowledged in Congressional testimony. Nor will the Fed need to do so to attract foreign investment in U.S. Treasury debt, these analysts reason.

The differential between long-term dollar and yen interest rates is nearly 5.5 percentage points, helping allay fears that Japanese investors will desert the American bond market. While Japanese demand was not overwhelmingly strong in last week's auction, say market observers, it was sufficient to calm fears of a pullout.

From the viewpoint of a Japanese investor, "we calculated that the dollar could depreciate another 70 percent," and U.S. bonds would still be attractive compared with yen bonds, says Mr. MacKinnon of Vanguard. Meanwhile, there are reports that Japan and West Germany will move as soon as this week to bring official interest rates still lower, which would support the dollar.

Even if the dollar weakens further over the year, as many analysts expect, inflation worldwide is expected to remain moderate. Most forecasts for U.S. inflation in 1987 are in the range of 3.5 to 4.5 percent. Though there was a pickup in the rate of increase in the first quarter, "you're not getting a lot of pressure," Mr. Michele notes.

But the attitude toward inflation could change rapidly if the rise in commodities prices suddenly gathers steam. "If the commodities indices were to keep going up, the market would be apprehensive," cautions James Kochan, chief fixed-income strategist of Merrill Lynch.

In the U.S. Treasury market,



Paul Volcker confirmed that the Fed was giving rates a nudge upward.

investors who remain concerned about volatility can find attractive yields in maturities of two to four years, Mr. Kochan says. Yields in these maturities are running from 7.5 percent to 8 percent, not much less than the yields on longer-maturity bonds. Yet these shorter maturities are less volatile in price.

For more nimble investors, he says U.S. mortgage-backed securities offer enticing yields of 9 percent and over. But investors in these securities should be aware of their special features. If interest rates head lower, homeowners may again start to refinance their mortgages. That would reduce the returns on these securities.

WITH THE OUTLOOK for the dollar still negative and interest rates in Japan and West Germany likely to head lower, managers of international bond portfolios continue to give heavy weightings to securities in other currencies. Michael Rosenberg, vice president of international fixed-income research at Merrill Lynch, devotes about 35 percent of his model portfolio to Deutsche mark bonds.

"A lot of people say you go to sleep watching the German market, but that might be a good thing, compared to the other markets," he says, describing his over-

all posture as defensive. Dollar bonds account for about 25 percent of the portfolio, and yen bonds about 15 percent. The balance is in the Canadian dollar, British pound, Australian dollar and New Zealand dollar.

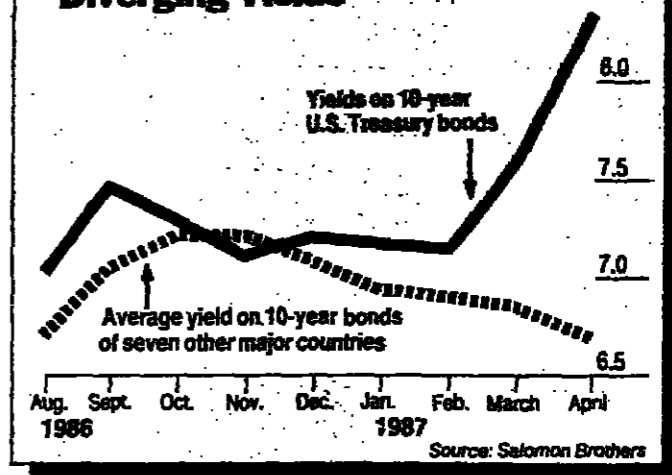
Mr. Rosenberg is underweighting the Japanese bond market because he believes prices of the benchmark 10-year issue are too high, based on the economic model he uses. Leslie Nenberg, manager of Massachusetts Financial International Trust-Bond Portfolio, regards his yen holdings as a currency play, though he declines to predict how much further the yen will rise. "I'll be happy to get the direction right," he says.

Gills — British government bonds — have been stars of the last three months as the pound has risen and interest rates have fallen. With elections expected in June, the pound's buoyancy has been helped by the Thatcher government's gain in public opinion polls.

Robert Thomas, economist at W. Grenville & Co., says prices of 10-year gills could climb further. He estimates that the 10-year gill, now trading at around 9 percent, should fall to around 8.25 around the election period.

Phil Rosenberg in New York contributed additional reporting on this article.

Diverging Yields



Source: Salomon Brothers

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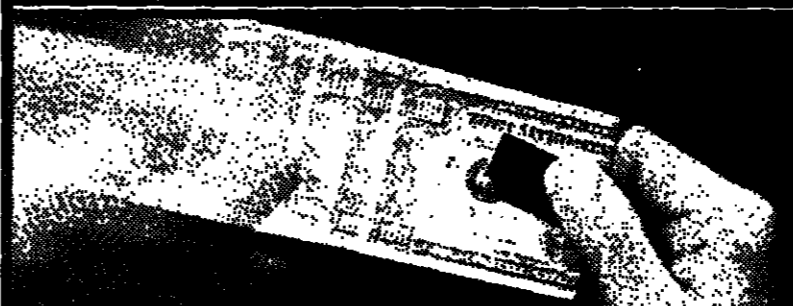
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BOURSES

Why Bears Are Stalking U.S. Brokers

By Alex Barnum

WHEN AMERICAN EXPRESS Co. announced plans to offer shares in its Shearson, Lehman Brothers subsidiary to the public, the broad-based financial services company had hoped that its strategy would boost its own share price as well as raise more than \$600 million in new capital. In the end, both goals proved elusive.

Of the 18 million shares in Shearson that were initially offered on Thursday, investors purchased only 4.7 million. And even though the shares came to market at \$34 a piece, the lower end of the range expected by most analysts, the stock ended its first day of trading unchanged. By contrast, shares in American Express dropped more than 1 point as the market got wind of the disappointing results.

"The offering really looked terrible," an observer says. "This has exacerbated the industry's situation."

The euphoria that has swept the stock market to new records has side-stepped shares in the market's brokerage houses. In the past year, the Standard & Poor's 500-stock index has risen more than 20 percent. By contrast, the share price of Salomon Brothers Inc., the industry's leading underwriter, has plunged 32 percent, and First Boston Corp., another leading investment banking firm, has slid 13 percent.

"These stocks have gotten creamed," admits Rodney Schwartz, a financial services analyst at PaineWebber Inc. Problems at Merrill Lynch, which announced two weeks ago that it had losses of more than \$250 million in the second quarter because of unauthorized trading, have only added to investors' concerns about the sector.

Brokerage stocks are drastically undervalued compared with the rest of the market. Price-earnings ratios are low at an average 10 times 1986 earnings, versus 18 for the market as a whole. And stocks are selling for less than two times book value — cheap relative to the three times book value paid last year in private acquisitions of Kidder Peabody and Dillon Read, notes Samuel Liss, a Salomon Brothers analyst.

But the likelihood of any improvement in the near term seems remote. Profits this year are expected to remain flat, providing investors with little incentive to begin bidding up prices, analysts say. "On an earnings basis, forget that," urges Perrin Long, who follows the industry for Lipper Analytical Securities Corp.

A major reason investors have been avoiding the brokerage stocks, analysts say, is concern over the insider trading scandal and the prospect of government fines and major investor lawsuits.

Adding to the uncertainty is a general nervousness about the stock market. Mr. Long notes that the large brokerages that cater to institutional clients would be faced with a collapse in underwriting profits if the markets were to turn bearish.

Similarly, the retail-oriented firms would see trading profits begin to evaporate. Indeed, Mr. Schwartz adds, some investors are beginning to short these stocks, putting more downward pressure on the group.

Costs are another factor. Major brokerages continue to spend heavily in large part because of efforts to keep pace with an expanding global business.

All major firms have expanded activities in London. In Japan, Goldman Sachs, Merrill Lynch and Morgan Stanley have been awarded limited trading powers on the Tokyo Stock Exchange. Salomon Brothers, which recently won a \$300 million contract to handle Japanese operations, expects to win a seat on the exchange next year.



A commuter checks a stock price at the Merrill Lynch office at Grand Central Station in Manhattan.

Because of "the tremendous potential in the international area," the large institutional firms look good in the long term, says Richard Samartino, an analyst at Argus Research Corp. In the short term, however, the price of such expansion has been staggering.

The most dramatic example is Salomon Brothers. The brokerage's net earnings dropped 7 percent to \$516 million in 1986 as its 40 percent increase in staff sent costs soaring.

The economics of the move were not optimal, admits John H. Gutfreund, Salomon's chief executive officer. But he notes that costs have begun to level off and trading has increased enough to raise profits to \$149 million in the first quarter. "It takes some time for the revenue stream to develop," he says.

First Boston, which ranks a close second in underwrit-

ing, expanded operations last year by about 35 percent. But earnings are more stable, says Mr. Liss, because the company's traditional forte of advising on mergers and acquisitions continues to bring in substantial revenue from last year's takeover wave. He recommends the stock for the long haul.

The outlook for retail firms is more favorable, analysts say. Merrill Lynch, PaineWebber and E.F. Hutton still earn a substantial portion of revenues from the individual investors. Having largely avoided the problems associated with the large institutional brokerages, these firms generally are seen by analysts as better short-term investments.

Though still undervalued, their share prices have been sustained by the dramatic increases in trading activity since the start of the year, the experts say. Tom Brown, an analyst at Smith Barney, Harris Upham & Co., says PaineWebber is most likely to benefit from the increase.

One notable exception in the group is Merrill Lynch, which suffered an extraordinary loss of \$250 million in its relatively young mortgage-backed securities business when interest rates picked up and the value of its holding plummeted. The loss, much of which was incurred by one trader, prompted analysts to decrease annual earnings estimates on Merrill Lynch by as much as 15 percent.

Experts were divided on the outcome of the Shearson offering long before its public debut last week. American Express hoped to raise \$612 million from the sale. In addition, Nippon Life Insurance Co. had agreed to buy 13 million newly created shares for about \$540 million. The net result was to have raised Shearson's total capital above \$3 billion.

When all these transactions are complete, American Express will still retain a majority stake in Shearson and the company has agreed to maintain at least a 40 percent interest until 1990. At the same time, Nippon Life has agreed not to increase its stake beyond 33.33 percent for the next 25 years.

Shearson recently merited a price-earnings ratio of 13 from Mr. Schwartz because of good balance between retail and institutional clients. But Mr. Liss says "the appetite is not there" for an initial public offering.

Of universal appeal among retail-oriented firms are a number of smaller, regional brokerages. A.G. Edwards Inc., a St. Louis-based brokerage with a base of loyal individual clients, is widely recommended by analysts for its earnings consistency and ability to control costs. Another stock Mr. Liss likes is Legg Mason Inc., based in Baltimore.

Earnings Outlook

Consensus estimates of 1986 and 1987 per-share earnings for selected U.S. securities firms as of April 24. Compiled by Institutional Brokers Estimate Service, a unit of Lynch, Jones & Ryan.

Firm	1986	1987	1986 Actual
Salomon Brothers	\$4.39	\$3.81	\$3.45
First Boston	\$5.67	\$5.46	\$5.10
Merrill Lynch	\$4.03	\$3.53	\$3.31
PaineWebber	\$3.75	\$3.08	\$3.03
E.F. Hutton	\$2.75	\$2.62	\$2.90
American Express	\$6.29	\$5.57	\$4.53
Morgan Stanley	\$8.55	\$7.85	\$8.42

Tokyo's Tiny OTC: Beset by Doubts

By Andrew Horvat

JAPAN'S TINY over-the-counter stock market has begun to show signs of life. But it is doubtful whether current investor interest alone will help the market overcome its problems.

Many investors — especially foreign buyers — are still hurtling from major losses after a government-inspired reorganization of the OTC four years ago. The goal was to encourage Japan's languishing venture capital market, but attempts to revitalize the OTC market ran aground as Japan's economic problems began to mount.

The big Japanese manufacturers, which decided against ploughing their earnings into new projects until prospects for economic growth improved, have seemed more interested in investing in well-established stocks. And the rise of the yen has drastically diminished the export markets that the small, high-technology companies envisioned to join the OTC were expected to exploit.

The failed attempt has only reinforced suspicions about the OTC. For many years many investors have viewed it as a dumping ground for stocks that have been removed from the main exchange. A curious example is the Bank of Japan.

Originally, the central bank was on the prestigious first section of the Tokyo Stock Exchange. But because bureaucrats refused to raise the bank's capitalization, which stood at a meager 100 million yen, the stock exchange delisted the bank as it would any other underperforming company.

Foreign investors felt especially betrayed when the government's attempt to eliminate the OTC market's unpredictable, casino-like mentality did not work.

Nihon Dempaku, a maker of crystal oscillators, remains fresh in the minds of many investors. Share prices of this OTC stock soared from 380 yen in early 1983 to more than 5,000 yen in about a year. But shortly after issuing new shares — about 30 percent of which were placed overseas — the stock's value plummeted to the 1,000-yen level, where it has remained in spite of what one analyst has called "a roaring bull market."

At present fewer than 200 stocks are traded on Japan's three OTC markets, compared with some 20,000 on the National Association of Securities Dealers Quotation System in the United States, which serves as a model for the Japanese.

For the past several years, the OTC's annual turnover has been less than the value of just one day's trading on the Tokyo Stock Exchange. Indeed, Tokyo's astonishing rally has focused almost exclusively on big blue chips.

THE PERFORMANCE GAP between the TSE's first section, where the blue-chip names are found, and the second section, populated by smaller companies, provides a valuable monitor for OTC stocks, which generally are not big enough to qualify even for a second tier listing. In the past six months, first-section stocks have advanced just under 30 percent, while second-section stocks have actually declined 15 percent.

"The very few sad people in the market today are foreign fund managers of small-company stocks," says an analyst at a British brokerage in Tokyo.

It is not just the size of OTC stocks that has kept investors away. In contrast to the first section — where financial sector stocks are well represented — nearly 25 percent of the value of the second section is made up of manufacturing and electrical issues.

"The OTC market is worse in terms of dependence on electronics and machinery," says Masato Kawada, a director of GT Management's Japanese office.

Still, despite its recent lackluster performance, Mr. Kawada says the OTC market offers some opportunities. The OTC, he says, can no longer be dismissed as the last step on the ladder for delisted issues.

"OTC is a corridor for good companies on their way up and this might just be the right time to study the OTC market," he says.

Indeed, much of the activity these days has shifted away from so-called "managed stocks," those that were delisted by the main market for poor performance, to new issues. Underscoring Mr. Kawada's claim that the OTC functions as a first step to the Tokyo Stock Exchange, in the past four years 16 companies have made the grade — most of them in 1986 and 1987.

About 30 new stocks are expected to be added to the OTC list this year compared with 22 in 1986 and 47

'The very few sad people in the market today are foreign fund managers of small-company stocks.'

over the past three and a half years, according to the Japan Securities Dealers Association.

There are also signs that the Finance Ministry still intends to try to turn the OTC into a viable market for capital-hungry small companies. Last year, for the first time, the Finance Ministry permitted Japanese mutual funds to include OTC stocks in their portfolios.

Also last year Nomura Securities Co., Japan's largest brokerage, included OTC shares in a select small-companies fund that was listed on the Tokyo Stock Exchange. And, in a final indication of increased respectability for OTC shares, banks began last year to accept them as collateral.

For the moment, analysts are betting on service-industry OTC stocks to be the best performers in the years to come. Charles Elliott, an analyst at Goldman, Sachs in Tokyo, likes Recruit Cosmos, founded by university students many years ago to sell surveys on student attitudes to Japan's major employers.

Simon Smithson of Kleinwort Benson sees hope for Viva Homes, a chain of do-it-yourself hardware stores, as well as for Ten Allied, a group of pubs.

A recent new issue that has received a lot of publicity is Toa Domestic Airlines, a large company that survived in an atmosphere of heavy regulation but that now needs funds to buy new planes. Placed on the market at 7,900 yen a share, for a price-earnings ratio of 140, the first trade took place at 30,000 yen.

The speculation in the shares has drawn some harsh judgments, and analysts are advising clients to steer clear. Critics suggested that TDA was hardly the sort of young company with a new product for which the OTC was revamped four years ago.

Mr. Smithson called TDA's OTC listing "one which epitomizes the excess of money these days." Another critic was more blunt, calling the offering "the ugly duckling of the year."

Emerging Growth Stocks, French Style

Continued From Page 7

The reforms are aimed at breaking the monopoly held by 61 French brokers and allowing greater foreign participation.

One company that will likely benefit from the freer environment is Dumenil Lèble. The investment banking and mutual fund management concern, which trades on the second market, "is unique in the French market," says Steven Schaefer, managing director of Oechsle International Advisers Ltd. in London.

"If you want to play the privatizations in France and the opening up of the French stock market, this can be a very exciting stock," he says. The company, he adds, also is "very aggressive" in the bond market.

Mr. Schaefer expects Dumenil Lèble to report 1986 net earnings that are double or triple its 1985 profit of 47 million francs (about \$7.8 million at current exchange rates). And at around 2,700 francs a share, the stock is priced at only around 13 times earnings, considerably less than the French market average of around 19.

Companies involved in telecommunications are also getting a closer look.

"In general, telecommunications can be an area in which France achieves a good relative position in the world," says Jérôme Labin, an analyst with the Paris brokerage Jean-Pierre Pinatton. "Up to now, we have lacked market share, but with recent developments France could become an important player in this field."

Mr. Labin believes SAT, a maker of optic-fiber cables, computer modems and telecommunications multiplexers, is "well positioned" to take advantage of the cable television construction boom expected in Europe in the years ahead. Only 2 percent of the homes in France now have cable, and only 5 percent of those in West Germany.

The stock is currently quoted around 750 francs. This is 14 times projected 1987 earnings, a figure that could drop to 9 when compared with projected 1988 profits. "We think the future improvement in the price of the stock," he says.

While the French economy is still having problems getting off the ground — economists have downgraded their projections for economic growth this year to between 1.5 percent and 2 percent — the consumer goods and retail sectors continue to draw attention.

A higher-risk consumer-sector stock is Salomon, a maker of ski-

'The market has become fully priced. You have to be a bit careful committing more money to it.'

or next, but it will explode after that."

He bases his optimism on a "revolutionary" aid the company is developing, as well as its diversification into the golf market with its recent acquisition of a company that makes a novel wood and metal club.

"The only reason to buy it now is that when it begins moving up, you won't be able to," Mr. Schaefer says. The stock is currently priced at around 2,000 francs a share.

Investors looking for a small technology stock with big potential might consider Ingenico, a company involved in the "smart card" market, according to Nigel Ledebor, manager of GT Unit,

Manager's European Small Companies Fund.

A smart card is a charge card or debit bank card with a microprocessor that can keep a running tab on an account balance and signal to a point-of-sale terminal when the holder's limit has been reached.

IT'S "ONE OF the companies we like best," Mr. Ledebor says, "even though it's not a cheap stock." Ingenico, now selling on the second market for around 2,700 francs a share, has a price-earnings multiple of around 35. The stock has more than quintupled since it was listed less than two years ago in under 500 francs a share. In 1985, the stock earned 16.5

francs a share. In 1986, per-share earnings rose to 50 francs, and Mr. Ledebor is projecting earnings of 75 to 80 francs a share this year. "I'd reckon they're going to see per annum earnings growth of 30 to 40 percent over the next three to four years," he says. "It's a good little winner."

A "less sexy" French stock that nevertheless has good growth potential, in Mr. Ledebor's view, is Aussedat Rey, a paper company. Aussedat Rey, he says, is benefiting from a recent restructuring, lower oil prices and a strategic decision to move away from commodity products and build specialties in niche markets such as labels and voucher papers.

These factors have paid off with improved margins. Though the company lost money in 1985, it earned 31 francs a share in 1986 and Mr. Ledebor predicts it "should make something short of 50 francs this year and be in the mid- to high 60s in 1988."

The stock is still relatively cheap, selling for around 650 francs a share with a price-earnings multiple around 13. "The great thing about them is a big improvement in margins," he says. "We're looking at them with a two to three year view."

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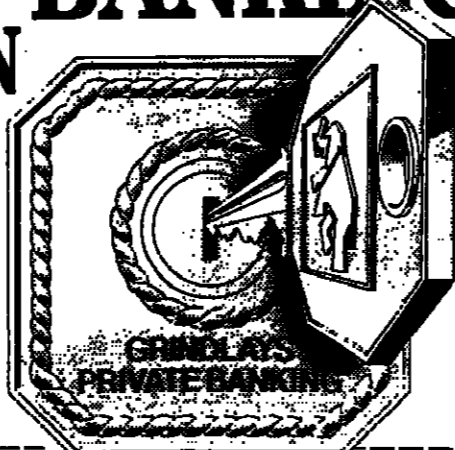
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BOURSES

Rethinking the Fortunes of Big U.S. Banks

Some analysts have begun to recommend selective buying.

By Vartan G. Vartan

MONEY-CENTER BANK STOCKS have been relatively unpopular investments this year. But some Wall Street analysts think the pessimism is overdone, and they have begun recommending purchase of selected issues.

Lawrence W. Cohn of Merrill Lynch rates Citicorp, Bankers Trust and J.P. Morgan as buys. "All three have better-than-average asset quality and long-term earnings growth prospects," he says.

Thomas H. Hanley of Salomon Brothers recently restated buy opinions on the same three issues. He also predicted that the money-center group would outperform the general market over the next six to 12 months.

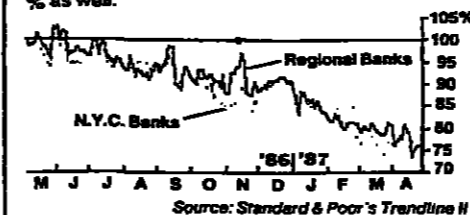
If that forecast proves accurate, it would mean a big improvement. So far in 1987, Standard & Poor's index of money-center stocks was up only 1.2 percent, compared with a gain of 17.5 percent for the S&P 300-stock index.

"J.P. Morgan is our one strong buy recommendation among money-center banks," says Thomas K. Brown of Smith Barney, Harris Upham & Co. "We also carry a buy on Bankers Trust."

One problem of leading bank stocks is that, like insurance and electric-utility issues, their luster has been dimmed by rising interest rates and revived

Bank Stock Performance

Standard & Poor's bank stock indexes lagged in relation to the S&P-500 index. New York City banks performed only 72.68% as well over the past year and regional banks 75.78% as well.



inflation fears. These sectors usually perform better in a disinflationary environment.

But bank shares also suffered from Brazil's notice in February that it would indefinitely suspend interest payments on about \$68 billion in intermediate and long-term debt to foreign commercial banks.

This policy has already reduced first-quarter profits for American banks with outstanding loans to Brazil.

Citicorp, for example, has reported that its net income for the opening quarter of 1987 was \$264 million, down 2 percent from \$270 million a year earlier. "Excluding the impact of the recent developments in Brazil," the bank reported, "first-quarter income would have been \$317 million, up 17 percent over the same period a year ago."

Citicorp is the parent of Citibank, the largest American bank. Analysts say that prospects for resolving the debt problem have taken a turn for the better with the naming of Luiz Carlos Bresser Pereira, an economist with broad business experience, as Brazil's new finance minister.

"This takes the negotiating process between Brazil and its creditor banks off dead center," explains



Luiz Carlos Bresser Pereira

James J. McDermott Jr., research director for Keefe, Bruyette & Woods, specialists in bank securities. "A recoupment of the lost income for banks can come as early as the third quarter of 1987, but it should take effect certainly by the fourth quarter."

For 20 largest U.S. banks, an estimated \$15 billion in Brazilian loans has been placed on nonaccrual status, according to Mr. McDermott. For the first quarter of this year, he estimates, the collective cost to these institutions was to reduce their net income by more than \$225 million.

Merrill Lynch's Mr. Cohn also took an affirmative view of Brazil's new finance minister. "The biggest plus was getting rid of his predecessor, Dilson Fumero, who was the principal architect of Brazil's policy of confrontation with its bank creditors."

"We are convinced," he adds, "that at some point in the second half of this year, Brazil will come to terms with its creditors and pay up the past interest."

Says Mr. Hanley of Salomon Brothers, "It seems likely that the Brazilian loans will be placed back on a full accrual basis before the end of 1987, thus reversing any negative impact earlier in the year."

If bank negotiations with Brazil do not prove successful before the end of 1987, according to Mr. McDermott of Keefe, Bruyette, "the full-year earnings reduction for the 20 largest banks would likely approach \$900 million." Despite his optimism for an eventual compromise, he observes that "the road to a Rio restructuring is likely to be a difficult one, fraught with political and financial pressures."

When Salomon Brothers raised its investment opinion on money-center bank stocks in mid-April, Mr. Hanley noted that, on a price-earnings basis, the shares were trading at a discount of nearly 60 percent to the overall market, or at "the lowest evaluation level of the postwar era."

And the composite yield on bank issues was 4.2 percent, compared with about 3 percent for the S&P 500.

Not every analyst takes a positive view of money-center banks, even if the Brazilian debt situation is resolved this year. "We are not recommending shares of money-center banks," said William M. Weiant of First Boston Corp., "although there may be some trading opportunities in these stocks."

Instead, he prefers fast-growing regional banks in the Southeast. Mr. Weiant's top choice is Barnett Banks of Florida, which he described as "consistently increasing market share in the best bank growth market in the country." His second recommendation is Atlanta-based Citizens and Southern.

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STRATEGY

Technical Readings On Tokyo

THE TOKYO STOCK MARKET'S rise to yet another record last week only turned up the pressure on international money managers. With the major index trading at a giddy 75 times 1987 earnings, many investors continue to predict a disastrous burst in the bubble. Even so, they are reluctant to pull out of the world's biggest equity market too soon.

This ambivalence has focused a lot of attention on the opinions of technical analysts, who study the underlying trading patterns of a market to determine trends. Leon Brand, technical analyst for Merrill Lynch's global securities group in New York, pores over charts and figures showing the momentum of change in various indexes, trading volume, the relative movements of stock groups, and short-selling and margin buying. Other gauges include the amount of cash available for investment in the market, and interest rate and currency trends.

For Mr. Brand, the signals remain positive. "We still see 24,500 to 25,000" on the Nikkei average, he says.

That view is not only based on the internal dynamics of the Tokyo market. Mr. Brand also keeps an eye on how Tokyo is performing relative to the New York stock market. Big institutional investors are quick to shift funds from one market to the other if they perceive an undervalued situation.

By dividing the Nikkei average by the Dow Jones industrial average, Mr. Brand creates a ratio that indicates when one of the markets is running too far ahead of the other. A ratio from 10.50 to 10.70 signals a cautious stance.

"The ratio is about 10.25," he reports. "Not in the best of shape, but it's not very dangerous." His gauges of short-selling indicate that the speculative activity is not at dangerous levels, at least in Tokyo's terms.

"If the U.S. market starts improving itself in the later part of June and July, the Tokyo market will follow," Mr. Brand says. One factor that could underpin the market, he believes, is a stabilization in the dollar rate at around 137 yen for the next five or six months. The increase in U.S. interest rates and the further decline in Japanese interest rates bode well for a more stable currency relationship, he says.

Market Scoreboard

Stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in April.

	Percent Gain	Price April 30		Percent Loss	Price April 30
New York Stock Exchange:					
Compiled by Media General Financial Services. Prices in dollars					
Bethlehem Steel	38	12.75	Franklin Resources	30	34.75
Lukens Inc.	36	30.88	Parnell Knitting Co.	29	11.50
Compaq Computer	35	37.13	Mellon Bank	27	36.75
Cleveland Cliffs Inc.	32	13.98	First Capital Bldgs.	26	18.88
Gerber Scientific	29	27.75	International Tech.	25	12.75
Fisher Foods	28	14.13	Consolidated Stores	23	11.00
Applied Magnetics	28	37.25	Oneok Inc.	22	32.25
Callahan Mining Corp.	27	35.13	Grow Group Inc.	21	11.38
Burlington Industries	26	57.25	Fischbach Corp.	21	17.00
Prime Computer Inc.	25	27.13	Comsat	21	25.75
American Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in pence					
AT&T Corp.	38	27.75	Stanwood Corp.	28	10.25
Crown Crafts Inc.	34	46.25	Sic Corp.	27	24.25
Western Digital	28	29.00	Lorimar-Telepictures	27	14.50
International Proteins	26	15.13	Maternal Sciences	24	18.75
St. Joe Gold Corp.	26	18.25	Scientific Leasing	23	11.13
Over the Counter:					
Compiled by Morgan Stanley Capital International. Prices in yen					
Clevite Industries	92	14.38	Viratek Inc.	49	18.50
Auxton Computer	81	15.63	Caremark Inc.	46	13.25
Elcotel Inc.	77	26.50	Information Resources	32	15.25
Allegheny Beverage	64	10.25	Payco American	32	18.75
Bonray Drilling	60	14.00	Autodie Corp.	30	18.75
London Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in pence					
Avis Europe	21	348	Norcross	13	374
STC	18	295	Enterprise Oil	13	284
Rio Tinto-Zinc	17	989	Kleinwort Benson	11	473
British Airways	16	153	International Thomson	10	699
Hill Samuel	14	480	Tootal	8	122
British Telecom	14	287	Costain Group	7	513
Slough Estates	14	235	De Beers	7	766
Amstrad	14	203	Mercury International	7	349
Reed International	13	430	British Printing & Com.	7	316
Charter Consolidated	13	371	Royal Insurance	7	885
Tokyo Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in yen					
Nippon Credit Bank	51	15,700	Advantest	22	2,560
Toa Harbor	49	1,290	Hirose Electric	18	2,300
Nissin Flour	42	1,280	Asahi Chemical	18	945
Hitachi Zosen	41	253	Hitachi Credit	18	1,510
Mitsui Bank	40	2,700	Fujitsu	14	1,440
Maeda Construction	39	1,610	Nintendo	14	8,800
Ishikawajima-Harima	39	710	Kuraray	13	2,020
Kirin Brewery	37	2,820	Ajinomoto	13	3,490
Industrial Bank Japan	37	4,780	Koyo Seiko	13	480
Kyowa Bank	34	1,660	NCR Japan	12	1,550

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Kyowa Bank	34	1,660	NCR Japan	12	1,550

With a calmer currency climate, the Japanese market could "get some more bouncing effect in the exporters" in the near term, he says, including the auto, electrical and computer-related sectors. But over the next 18 months, he says, the market's focus will remain on the domestic sectors, including chemical, drugs, rails, pulp and paper, and construction.

A decline in Japanese interest rates could push still more institutional cash into the markets. The steady flow of liquidity into stocks has allowed the market to move forward even when fundamental measures such as price-earnings multiples look perilous. This is another reason that technical views of the market have taken on importance.

A recent Merrill Lynch market

comment estimated that the assets of so-called *tokin* trust funds, major players in the market, amount to 25 trillion yen (\$181 billion at current exchange rates), double the level of a year earlier. The assets of Japanese mutual funds have been growing even faster, the report said, amounting to about 22.4 trillion at the end of March.

William McBride

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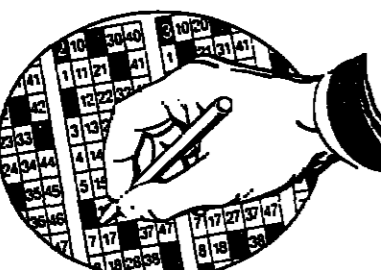
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COLLECTING

The Vogue in Vintage Wristwatches

These elegant old timepieces are commanding stiff prices at auctions.

By Cynthia Catterson

IF THERE'S AN OLD SWISS WATCH buried in the back of a dresser drawer, long forgotten since it was bequeathed by a relative, now is the time to dig it out. Vintage watches are being snapped up at high prices by a new breed of collectors who wear the elegant old timepieces with their daily wardrobe.

"Old wristwatches have become a highly visible status symbol," says Daryn Schipper of Sotheby's watch department in New York.

Mechanical wristwatches were all but forgotten by the public when the Japanese stormed the market with precision quartz watches in the 1970s. But rumors that Swiss makers of mechanical watches were about to close up shop prompted collectors to take a second look at the intricate craftsmanship of these timepieces.

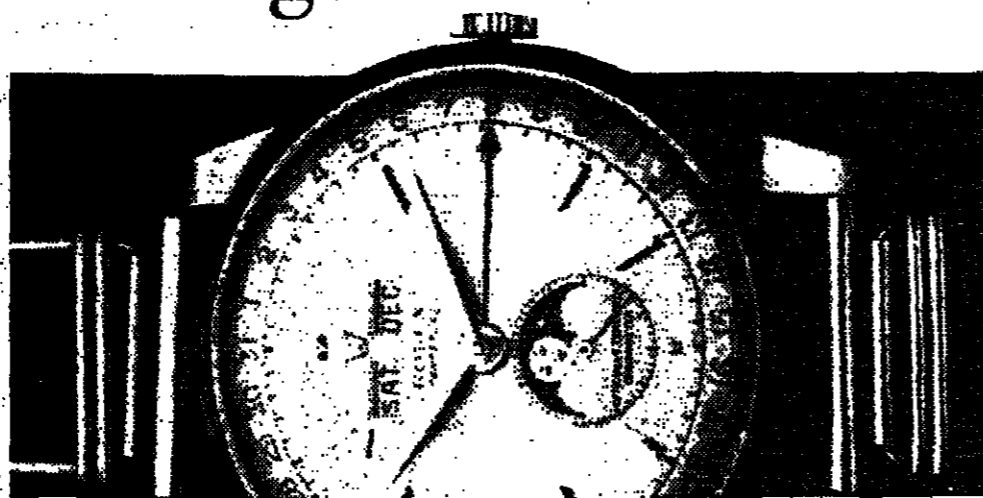
The forecasts of the demise of the Swiss watchmakers proved false, but the fascination with wristwatches made from the 1920s through the 1950s has been gaining momentum ever since. In a 1980 auction of timepieces, Sotheby's sold only six watches for a total of \$16,000. By last October, a sale of 251 lots became the first million-dollar sale of 249 lots in February.

Ms. Schipper says that a few years ago, only one or two absentee bidders would request reports on the condition of a wristwatch up for sale. In the last year, she says, she has prepared more than 400 such reports.

The increase in demand has sent prices soaring. Patek Philippe's gold perpetual-calendar, moon-phase chronograph model, made in the 1940s and '50s, which Sotheby's sold for \$8,525 in 1980, fetched \$44,000 in last June and \$66,000 in February. Sotheby's estimates that this model, which it considers a barometer of the overall market, will sell for at least \$45,000 to \$55,000 at its June auction, though Ms. Schipper thinks it could get more.

"Of all the watches people collect," she says, "this is the one they feel they must have."

The highest price ever paid for a wristwatch was set



This 18-karat gold and ebony Rolex with perpetual moon-phase works was sold at Phillips for \$10,000.

at a Christie's auction last year in Geneva, when Patek Philippe paid \$165,000 to buy back one of its own. Richard Garner, a watch specialist at Christie's in London, says the 1955 Patek perpetual-calendar split-second chronograph, one of only three timepieces the company made that year, might have sold for as little as one-tenth that price in 1980.

While demand for vintage Patek Philippe seems to be the greatest, watch specialists note that other famous names are escalating in price as well. "Makers like Cartier, Vacheron & Constantin, Audemars Piguet and the early Rolex are synonymous with quality and therefore command the highest prices," notes Peter Beaumont at Phillips auction house in New York. Prices for these brands have doubled and tripled in the last few years, he says.

To find bargains, Philip Whyte, a partner at 7

Piccadilly Square, an antique-watch shop in London, suggests quality watches made by lesser-known firms such as Movado, Hamilton and Gruen.

But buyers should beware. With the increased interest in vintage wristwatches has come an increased incidence of fraud, most often with Rolexes.

"Rolex made hundreds of thousands of watches and didn't keep detailed records," Mr. Whyte says. "Patek Philippe and some of the others would make maybe 10,000 of a single model, and each watch would have signatures, serial numbers or stamps that are easy to check."

Mr. Whyte notes that watch cases are often counterfeited. He advises prospective collectors to inspect a watch carefully, inside and out. "It's easy to buy a Swiss watch and have Patek or Rolex painted on the

face," he says, "but you can't reproduce the intricate, polished movements of the finer, older watches."

Still, a signed movement is no guarantee. Cindy Fanelli, owner of Fanelli Antique Timepieces Ltd. in New York, recalls a gold-cased Patek Philippe that she purchased for \$1,000, believing it to be worth at least twice that amount. But after checking the serial number with the watchmaker's records in Switzerland, she found that her model had been produced in stainless steel. The gold case was not original and her watch was worth only about \$650.

While make and authenticity are the most important factors, value also depends on the condition of the case and the movements inside. Value can be enhanced by such complexities as a chronograph, a split-second hand, a moon phase, a perpetual calendar (which automatically adjusts for leap years), and repeaters, which ring out the time in hours and minutes.

Original dials are extremely important. A watch with a refinished dial could be worth as much as 20 percent less than an original. "The dial is the personality of the watch," says Ms. Schipper at Sotheby's. "Old watches should show their age."

After the dial, details such as the shape of the case and its thickness come into play. Another oft-scrutinized detail is whether the face has Roman or Arabic numerals or merely slashes, known as batons.

As with all collectibles, there is no way to predict what turn the trend will take. Fashion can be fickle, Ms. Schipper notes.

"For a long time, people wanted a 1950s Patek Philippe chronograph with round chronograph control buttons on the side," she recalls. "Then they decided that a model from the '40s with square buttons was more collectible."

Sotheby's has estimated that one of the older models in its June auction will fetch \$45,000 to \$50,000. "If it was the model with round buttons, it would be worth about one-half as much," she says.

One thing seems certain, however. The market is driven by demand for men's watches. "It is the only jewelry that is really acceptable for men," reasons Mr. Garner at Christie's.



A watch in three colors of gold, made in Paris in the 1920s for an American financier, Otto Kahn.

FUNDS

The Ethical Side of Investing

British firms find a market for funds with a conscience.

By Jeff Ferry

THE GROWING TENDENCY of big institutional investors, banks and industrial companies to shun South African connections is again drawing attention to the ethical side of investing. Investment managers in Britain, like their American colleagues, have discovered the appeal of funds with a social conscience.

So far, there are three so-called ethical funds available in Britain, two of them formed last year. Industry sources expect two more to be launched soon by major institutions. The fund nations with these funds has been broadened by evidence that performance need not suffer when portfolios are subjected to ethical considerations.

Britain's first and largest ethical unit trust, the Stewardship Trust, was started in June 1984 by the Friends Provident, an insurance company with Quaker origins. In Money Marketing magazine's most recent survey of the performance of 90 general unit trusts, the Stewardship came in 10th.

In the 12 months ended April 13, the Stewardship had a return of 25.5 percent, compared with an increase in the FT All-Share Index of 21.0 percent and the general trusts' average of 16.7 percent. Since the beginning of this year, Stewardship's assets under management have grown more than 20 percent, to £50 million (about \$82 million at current exchange rates).

"It's not just that we all care about our community," says the fund's general manager, Peter Silvester. "We believe that, if you start with good products which are useful to the community, and therefore have a good market, and if the company is well-managed, then that is a recipe for a profitable investment."

The Stewardship relies on a committee of its own board members and church and charity representatives to develop ethical criteria. An independent, nonprofit research group, the Ethical Investment Research Advisory Service, provides assessments of the companies. The Stewardship will not invest in companies active in South Africa or Namibia, in producers of armaments, alcohol, or tobacco, or in companies involved with gambling.

But Mr. Silvester stresses that positive criteria are equally important. The Stewardship seeks out companies whose products it deems useful to the community. Companies regarded as having good safety records, good employment records, and open and responsive man-



Charles Walker

agements also warrant closer attention, he says.

The Ethical Investment Trust, managed by the insurance company D.J. Bromidge & Partners Ltd., applies even more rigorous criteria. In addition to a ban on South African connections, arms, alcohol, and tobacco, it will not touch companies involved in nuclear power, product-testing on animals, or those making political donations of more than £10,000 a year. The fund also rules out companies that have been charged with violating Britain's Advertising Standards Code.

THE ETHICAL INVESTMENT Trust will not invest in any company with more than 10 percent of its activities abroad. This is "not because we are insular," explains the managing director, David Bromidge, "but because the research organizations are not quite there yet in Europe and the Far East for us to be sure of what we're investing in." The fund's evaluations of potential investments are also done by the Ethical Investment Research Service.

The Bromidge fund has £1.4 million under management. "Demand is growing at a great rate, and we expect it to reach several million very quickly," Mr. Bromidge says.

In the 15 months to April 30, value of the units rose 37 percent, compared with a 52.8 percent increase for the FT All-Share Index. "Our fund is 85 percent equity, so, in a last-rising equity market, it will be outpaced by the index," Mr. Bromidge says.

The Fellowship Trust, managed by the London brokerage firm of Buckmaster & Moore, is Britain's first ethical unit trust to take an international approach, with about 25 percent of its assets invested outside Britain. Using criteria broadly similar to those of Stewardship, it has grown to £2.3 million since its launch last July.

"We consider every idea that comes in from our analysts, and try to shoot them down on ethical grounds," explains the fund manager, Tony Franks. "Most of them fail."

One consequence of the approach, though, is a tilt away from the bigger companies. "It forces us down the route of smaller and smaller companies," he says. "It's hard, for example, to find a very large multinational without some link to South Africa."

As examples of investments favored by the fund, Mr. Franks cites Yorkshire Chemicals, a maker of specialty chemicals and dyes; R. Horne, a paper merchant; and Baggeridge Brick. He says his fund has taken a "selective" interest in retailers, including Dixons, the consumer-electronics chain. But it has rejected Sainsbury's, the big supermarket chain, because of its large sales of alcoholic beverages.

Outside Britain, Mr. Franks cites The Limited, the U.S. women's clothing retailer; Izumi, a Japanese retailer; and Essilor, the French optical products company.

Mr. Bromidge says the emphasis on small companies has paid off for the funds.

"There is a lot more mileage to be had right now with some of the smaller and medium companies," he says. "You don't lose much by excluding many of the larger companies." □

Correction

In the April 13 issue of Personal Investing, figures in the tables for the top 10 offshore funds in the 12-month and two-year periods ended March 31 were transposed. Here are the correct leaders and total returns:

For the 12 months, the leaders were Gartmore Oriental Ventures, 216.66 percent; Save & Prosper Gold Fund, 137.95 percent; MIM Gold & Precious Metals, 131.95 percent; GT ASEAN Hong Kong Growth, 122.98 percent; French Second Marché & Growth Fund, 115.41 percent; Thornton Australia, 115.01 percent; Australian & General Exempt, 112.62 percent; GAM Australia, 111.75 percent; Barclays Uni-Australian accumulation units, 110.29 percent; and Barclays Uni-Australian income units, 110.29 percent.

For two years, the leaders were the French Second Marché & Growth Fund, 302.70 percent; JF Pacific Income Trust, 259.71 percent; JF Pacific Securities Trust, 277.46 percent; Worldinvest Equity Fund, 260.44 percent; Quantum Fund, 256.84 percent; Lazard Bros. European Fund, 249.90 percent; Bamford Brandt Pacific Basin, 247.49 percent; Lazard Bros. Far Eastern Fund, 246.65 percent; Japan Portfolio, 243.04 percent; and Gartmore Capital Strategy Yen Convertible Fund, 239.54 percent.

Also, in the article on umbrella funds, the initial charge for the Guinness Mahon Global Strategy fund was incorrect, because of an editing error. The initial charge is 3.5 percent and is waived completely for direct investments over £50,000. □

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Denmark D.Kr.	2,500	1,400	770	D.Kr. 3.13	D.Kr. 1,139
Finland F.M.	1,730	950	520	F.M. 3.25	F.M. 1,183
France F.F.	1,500	820	450	F.F. 2.88	F.F. 1,048
Germany* D.M.	580	320	175	D.M. 1.11	D.M. 404
Gr. Britain £	130	72	40	£ 0.19	£ 69
Greece Dr.	22,000	12,000	6,600	Dr. 49.56	Dr. 18,040
Ireland £.Irl.	150	82	45	£.Irl. 0.29	£.Irl. 106
Italy Lire	380,000	210,000	115,000	Lire 756	Lire 275,200
Luxembourg L.Fr.	11,500	6,300	3,400	L.Fr. 18.41	L.Fr. 6,700
Netherlands Fl.	650	360	198	Fl. 1.21	Fl. 440
Norway* N.Kr.	1,800	990	540	N.Kr. 3.05	N.Kr. 1,110
Portugal Esc.	22,000	12,000	6,600	Esc. 64.56	Esc. 23,500
Spain* Ptas.	29,000	16,000	8,800	Ptas. 55.33	Ptas. 20,140
Sweden* S.Kr.	1,800	990	540	S.Kr. 3.05	S.Kr. 1,110
Switzerland S.Fr.	510	280	154	S.Fr. 1.10	S.Fr. 400
Rest of Europe, North Africa, former French Africa, Middle East \$	430	230	125	Varies by country	
Rest of Africa, Gulf States, Asia \$	580	320	175		

* In these countries, hand delivery is available in major cities on publication date. For details and rates, please check here and fill in your address below. □ ** Based on a one-year subscription. Offer valid through December 31, 1987 for new subscribers only.

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EUROBONDS

Market Rallies on Auction,
But Dollar Doubts Linger

By CARL GEWIRTZ

PARIS — Financial markets ended on the upbeat last week. Exchange rates held in a more stable range than seen recently and the U.S. Treasury's \$29 billion spring refunding, which got off to a slow start, ended with a bang when the Japanese surprised everyone by buying close to 45 percent of the 30-year bonds put up for sale.

The \$9.3 billion of long-dated bonds were expected to be the most difficult part of the refunding and the anxiety over how badly the auction might go weighed heavily on the dollar bond market all week.

In the euphoria that followed, prices rose and the yield on the new bond fell to 8.59 percent from the offering level of 8.76 percent.

However, some brokers in Japan said that, taking into account pre-auction commitments to sell the bonds to non-Japanese investors, their net buying was less than 20 percent of the total. Even so, the price rise was a relief to the Japanese, who began fighting back on the positions they had taken. They had gambled that they would find buyers for the paper for which they had very skimpy domestic demand.

But underneath the froth, the doubts remained — now focusing on the trade friction between the United States and Japan. Unless there is some significant shift in economic policy, international investors clearly doubt that exchange rates can be stabilized and the rise in U.S. rates halted.

How deep this doubt runs will probably be tested this week. Bankers expect the Eurobond market to try to re-open the fixed-coupon sector in dollars, which for the past two weeks has seen no new issues. The sole offering last week of a small, gold-linked issue for Hycoft Resources was really no test of the appetite for straight dollar debt.

In fact, the popularity of gold-linked paper both in the bond market and in the stock market is taken by bankers as a measure of how wary investors are. Banque Paribas du Commerce Extérieur offered 100 million European currency units with warrants to buy gold, for example, and shares in gold mining companies have been drawing demand.

NEVERTHELESS, there is a strong feeling expressed by many bankers at the week's end that speculators are prepared to take a view that the rise in dollar interest rates has peaked and that the exchange rate will not weaken.

Evidence that speculators are returning to the market is suggested by the narrowing yield gap between Eurodollar bonds and the domestic issues. According to Credit Suisse First Boston, the yield on five-year Eurobonds narrowed to 30 basis points over Treasury yields last week from 39 basis points a week earlier. On 10-year paper, the yield gap fell sharply to 37 basis points from 68.

What action there was in the international capital market last week was confined to the sterling sector. Falling interest rates, a strengthening currency and, most likely, an imminent election that is expected to keep the Conservatives in power fueled a powerful rally in bond prices.

Early in the week, warrants to buy sterling bonds met a good response. Both J.P. Morgan and British Land sold one-year warrants to buy fixed-coupon bonds. Morgan's warrants, initially offered at \$12.50, to buy a 9 percent sterling bond ended the week at \$17.50 — a gain of 50 percent. British Land's warrants, offered at \$16 to buy 10 1/4 percent 15-year bonds, jumped 22 percent to \$19.50.

On Friday, Den Norske Creditbank sold two-year warrants at \$17 to buy 9 1/4 percent 10-year bonds.

At the same time, Britain's Prudential insurance company tapped the market for a \$150-million, 20-year issue carrying a coupon of 9 1/4 percent and priced at 100 1/4. Denoting the 2 percent fees paid to underwriters, the Prudential's net was 70 basis points over the yield on British government bonds.

Halifax Building Society offered \$50 million of five-year paper — the minimum maturity permitted by the Bank of England — but it arranged a three-year swap into floating-rate funds. It therefore set a fixed coupon for three years of 8 1/4 percent, which thereafter becomes a floating-rate note bearing interest of 17 1/2 basis points over the three-month interbank rate.

The notes were offered at a price of 101 1/4 and less the full fees of 1 1/2 percent cost the company 50 basis points over the yield on government bonds.

The European sector was active but less buoyant. Too much paper and low coupons — anticipating further declines in Japanese interest rates — are making for slow sales.

Italy sold 30 billion yen of four-year notes carrying a coupon of 4 1/4 percent and priced at 101 1/4 while Oesterreichische Kontrollbank issued 25 billion yen of five-year paper at 101 1/4 with a

See BONDS, Page 15

Demand
For Rolls
Is Heavy

Allocation to Be
Scaled Down

Reuters

LONDON — The government's share issue of aero-engine company Rolls-Royce Ltd. was nearly four times oversubscribed, and the allocation will be drastically scaled down, the trade and industry secretary, Paul Channon, said.

There were more than two million applications, seeking 3.15 billion shares, he said Saturday. Only 800 million shares were on offer.

The shares, payable in two installments, have been priced at £1.70 (\$2.85), valuing the company at £1.36 billion.

The scale of the demand, with the current strength of the London stock market, should ensure that the shares open at a premium when trading begins on May 19.

"I was surprised by the level of the response," Mr. Channon said, adding that most applications were from small investors.

"It is extremely encouraging that over two million people had confidence in the future of Rolls-Royce."

Under a scaled-down allocation system, applicants for 400 to 1,000 shares will receive 150; those for 1,500 to 2,000 will receive 200; 3,000 to 5,000 will get 250; 6,000 to 7,000 will get 300; 8,000 to 10,000 will get 350.

The issue is the latest in a series of denationalizations by the Conservative government.

Rolls-Royce aero-engines were rescued from collapse by a previous Conservative government in 1971.

Since then it has returned to profitability, posting a record pre-tax profit of £120 million last year, up 48 percent from £81 million in 1985.

Scandal Shakes Indian Company

Delhi Accuses
Reliance, the
Textile Giant

By Sanjoy Hazarika

New York Times Service

NEW DELHI — In the early 1980s, Reliance Industries was one of the fastest-growing industrial concerns in India, hailed as "the finest investment proposition ever seen by the Indian investor" in one magazine report.

Today, the textile corporation is enmeshed in political and financial scandals — defending itself against, among other things, a government accusation that it smuggled in textile manufacturing equipment. The scandals have rocked Prime Minister Rajiv Gandhi's government. Parliament and India's corporate world.

As part of widespread market insecurity, also due to a sluggish economy, the stock prices of Reliance and other prominent companies have dipped on India's stock exchanges.

Mr. Gandhi declared in Parliament last month that "those responsible will not be allowed to go scot-free" if it were found that Reliance had violated banking rules. "Government will not protect or try to save any individual," he said, apparently referring to the Ambani family that runs the giant company.

The story of Reliance offers an unusual glimpse into the complex relationship among Indian business executives, politicians and government bureaucrats and the intrigue, power and pressure that play a part in their relationships.

It is the story of the dramatic rise of Reliance's founder, Dhirubhai H. Ambani, known for outflanking and alienating business rivals and winning powerful friends in government.

"My business is my leisure," Mr. Ambani once said. "I enjoy it enormously."



Dhirubhai H. Ambani, founder of India's Reliance Industries, in front of his two sons, Mukesh, left, and Anil.

In 1967, Mr. Ambani founded Reliance with a share capital of about \$120,000. Its net assets are now worth nearly \$1 billion and it ranks No. 3 among the country's businesses not owned by the government. The company says it has three million shareholders — several times more than any other company in India.

Mr. Ambani's sons, Anil and Mukesh, both of whom hold management degrees from

American universities, are executive directors on the board and play a growing role in running the company.

Reliance, which manufactures a wide range of materials for dresses, suits and shirts, plans to start a detergent plant this summer and also to enter the plastic manufacturing market.

Mr. Ambani, 54, was regarded as close to senior aides of the late Prime Minister Indira Gandhi. See RELIANCE, Page 14

Soviet to Buy
First U.S. Wheat
Under New Pact

United Press International

WASHINGTON — The Soviet Union is buying 950,000 metric tons (1.05 million short tons) of hard red winter wheat from the United States, the first for 18 months and the first under a new cut-rate program, according to the U.S. Agriculture Department.

On April 30, Agriculture Secretary Richard E. Lyng announced that the Soviet Union had agreed to buy up to 4 million tons of wheat under the Export Enhancement Program.

That program provides bonus amounts of U.S. commodities to sellers as a way to lower their prices.

"This is the first big one. Hopefully, we'll have more," an Agriculture Department official said Friday after the sale was announced.

Under a nonbinding five-year agreement, the Soviet Union is supposed to buy at least 9 million tons of U.S. commodities, including 4 million tons of wheat.

The last major Soviet wheat purchase was 153,000 metric tons in October 1985, and the new sale is thus the first in the fourth year of the agreement and the first at subsidized rates.

The Soviet agreement to buy 4 million tons represents the largest sale ever of subsidized American wheat to a single country, according to department officials.

The Russians already have agreed to buy 3.64 million metric tons of U.S. corn in the current year.

The Agriculture Department's Foreign Agricultural Service said the average price of wheat involved in the sale was \$80 a ton.

Bonuses awarded by the Agriculture Department average \$44.14 a ton. Exporters will be paid their

bonuses in government-owned surplus grain.

Bonuses will be paid to Continental Grain Co., which sold 650,000 tons; Tradigrain Inc., which sold 100,000 tons; Arler Inc., which sold 150,000 tons and Bunge Corp., which sold 50,000 tons.

A trade bill under consideration by Senate committees would strengthen the export enhancement program by making the bonus sales available whenever U.S. competitors use practices that adversely affect the sale of U.S. commodities.

Japan Minister
Targets Surplus
At 2% of GNP

Reuters

TOKYO — Japan's current account surplus should be slashed to about 2 percent of gross national product, or about \$50 billion, according to Tetsuo Kondo, minister of economic planning.

The government has not previously set a target for the surplus, which reached \$93.8 billion in the year ended March 31. Mr. Kondo told parliament on Saturday that he felt 2 percent of GNP was appropriate.

Last month an advisory group to Prime Minister Yasuhiro Nakasone called for the government to issue a GNP ratio as a target for reducing the surplus on current account, a broad trade measure.

The projected GNP, or total output of goods and services, for 1986 stands at 335 trillion yen (currently \$2.4 trillion).

U.S. Pressing at OECD
To Reform Farm Prices

By Axel Krause

International Herald Tribune

PARIS — The Reagan administration will press its main trading allies at the annual OECD meeting starting Tuesday to join the United States in sweeping reforms of government farm programs.

Delegates to the Organization for Economic Cooperation and Development said the proposal had already stirred resistance from several European Community countries, notably West Germany.

But the U.S. reform initiative is being actively supported by Australia, Canada, New Zealand and Britain. They and smaller European governments will be seeking a declaration from the OECD for rolling back farm subsidies and commodity stockpiling, along with an end to all farm export aids.

Government officials predicted debate and clash in the two-day meeting of officials from the 24 member nations over the proposals. They warned the disagreements could lead to disarray among Western allies, thus providing an unusual ending to what has usually been a relatively tranquil gathering.

"This time there will be confrontation over broad economic issues and, we hope, a watershed on world agriculture," a senior U.S. official said. "Why? Because OECD members will be asked to commit to cutting back on absurd farm support programs, costing American taxpayers about \$30 billion annually, and nearly double that amount in the EC, if you include the community's indirect payments."

Japan also will be urged to phase out its domestic agricultural support programs, costing an estimated \$15 billion annually.

Various national programs to support prices paid to farmers have been widely criticized from international agencies like the OECD as leading to inflated consumer prices

and huge, often unused, surpluses. But political pressure from farm groups has frequently diluted government pledges to address the problem.

OECD officials said the proposals were but the first steps in a broad effort to begin transforming farming into a market-oriented sector of the world economy. The subject will also be debated at next month's annual summit meeting of the seven leading industrialized countries, in Venice.

"President Reagan first raised agricultural reform at the Tokyo summit last year," the U.S. official said. "We now want to start moving."

In a background paper for delegates, Jean-Claude Paye of France, the OECD's secretary-general, has warned that "the world food system is in deep crisis that seems beyond the control of traditional mechanisms, national and international. . . . Virtually every member country has adopted practices that help insulate its domestic production."

In unusually tough language, Mr. Paye described such practices as "ruthless and scandalous."

The U.S. delegation, headed by Treasury Secretary James A. Baker 3d, will be working with key allies to include strong language in the final communiqué that would commit the OECD to starting domestic reforms of government programs soon. At the same time, the proposal advocates accelerating trade liberalization talks on agriculture getting under way in Geneva under auspices of the General Agreement on Tariffs and Trade.

The OECD has concluded that the highest levels of government support for agriculture were in the United States, the 12-nation EC and Japan, followed by Australia, Brazil, Canada and South Korea.

Mr. Paye also will be seeking a commitment from OECD nations



Jean-Claude Paye

to provide the agency a permanent "monitoring" role over protectionist farm practices — a term French officials have questioned as a possible infringement on European Community agricultural policy. France, however, has indicated willingness to negotiate reduction of farm subsidies.

West Germany is expected to show the strongest resistance to farm reform proposals.

"The EC community will have a difficult time going along with Mr. Paye and the U.S. if Germany blocks it," a senior West European delegate said.

The United States has already announced that it will propose at coming trade negotiations a global decoupling of farm income from subsidies and phasing out all farm subsidies by the end of this century.

U.S. officials estimate that the direct and indirect cost of agricultural subsidies totals about \$30 billion a year in the United States and about \$50 billion a year in the EC.

Ex-Officials Put Faith in U.S. Thrifts

United Press International

LOS ANGELES — An investment group headed by a former Treasury secretary, William E. Simon, is staking its future on a string of troubled western savings and loan associations and the growing economic strength of the Pacific Rim countries.

"It's the No. 1 growth area in the world. It makes Europe look old hat," said Preston Martin, the former vice chairman of the Federal Reserve Board, and Mr. Simon's investment partner.

Based in San Francisco, Mr. Simon and Mr. Martin have purchased two ailing thrifts in the past six months, including Southern California Savings & Loan Association in Beverly Hills, California.

"We think the western states are where the opportunities are in the thrift business," Mr. Martin said.

"This is one of the biggest markets in the country for thrift services. Financial services is the growth opportunity in the United States and the world."

Mr. Martin said that he and Mr. Simon were considering acquiring additional thrifts in California, Oregon, Washington and Idaho.

Mr. Martin also confirmed industry speculation that the investment group is interested in acquiring the ailing Financial Corp. of America, parent of American Savings & Loan, the largest U.S. thrift.

"We're interested," he said. "We can raise the capital. The question is, can we make it work?"

Analysts who follow the thrift industry said the two former federal officials, known for their shrewd investment tactics, may be acquiring

thrifts to position themselves to take full advantage of the 1991 opening of California to interstate banking.

Gerald Haims, a securities analyst who follows thrifts for Seidler Amder Securities Inc. in Los Angeles, said out-of-state banking giants such as Citicorp and Chase Manhattan may try to go after thrifts

after they pick up some of the isolated institutions, they could combine them under one holding company and then they would be attractive," Mr. Haims said.

"If anybody could do it, they could," he said. "That's what I think their game plan is."

In an interview, Mr. Martin played down industry critics who contend that he and Mr. Simon may have received preferential treatment from the Federal Savings & Loan Insurance Corp., to build their growing network of thrifts. The FSLIC is the government fund that insures deposits in thrifts.

Mr. Martin, who is a former president of the Federal Home Loan Bank Board, which oversees the FSLIC, said the negotiations to acquire Southern California Savings were among the toughest he had weathered.

"We asked for a whole lot, and we didn't get it by any means," he said. "These guys in Washington really bore down. We've been at this since January. It was a lot tougher than in the past."

In an unusual move, the FSLIC released the exact amount of cash assistance, \$217.5 million, it provided Mr. Simon and Mr. Martin for the Southern California Savings acquisition.

"The reason they okayed us is because we are bringing in capital," Mr. Martin said.

The two investors contributed \$40 million, of which \$35 million came from Ariadne Australia Ltd. of Brisbane, and EFTNT, an Italian company affiliated with the Agnelli family, which controls Italian automaker Fiat SpA.

Currency Rates

Cross Rates	May 8
Australian dollar	1.574
Belgian franc	33.82
British pound	1.643
Canadian dollar	1.250
French franc	6.55
German mark	1.36
Italian lira	1.36
Japanese yen	163.75
Netherlands guilder	3.60
Spanish peseta	166.64
Swiss franc	1.48
West German mark	1.36

Quoted in London and Zurich. Figures in other European centers. New York rates at 4 P.M. (a) Commercial bank; (b) Amounts needed to buy one pound; (c) Amounts needed to buy one dollar; (d) Units of 100 (e) Units of 1,000 (f) Not quoted; N.A., not available. (g) To buy one pound: \$163.64

Other Dollar Values	May 8
Australian dollar	1.574
Belgian franc	33.82
British pound	1.643
Canadian dollar	1.250
French franc	6.55
German mark	1.36
Italian lira	1.36
Japanese yen	163.75
Netherlands guilder	3.60
Spanish peseta	166.64
Swiss franc	1.48
West German mark	1.36

Sources: Reuters (London); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAH (Bath, Bristol, Birmingham); Reuters (London). Other data from Reuters and AP.

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes	May 8	May 7	Change
DJ Industrials	2,222.30	2,280.40	+1.84
DJ Utilities	205.49	202.10	+1.89
DJ Transp.	957.38	944.65	+1.47
S & P 500	288.48	285.07	+1.84
NASDAQ	293.57	288.03	+1.85
S & P 400	341.15	334.30	+2.05
NYSE Comp.	165.49	162.44	+1.75

Money Rates	May 8	May 7	Change
Discount rate	8 1/4	8 1/4	0
Federal funds rate	6 11/16	6 11/16	0
Prime rate	8	8	0
Japan			
Discount	3 1/2	3 1/2	0
Call money	3 3/16	3 3/16	0
3-month interbank	3 13/16	3 13/16	0
West Germany			
Lombard call money	3	3	0
3-month interbank	3	3	0
Britain			
Bank base rate	9	9 1/2	0
Call money	10 1/4	10 1/4	0
3-month interbank	8 1/4	8 1/4	0
Dollar	May 8	May 7	Change
Bk. Eng. index	100.20	100.20	Unch.
Gold			
London a.m. fix	452.00	456.75	-0.83

World	May 8	May 7	Change
MSCI P	473.89	460.20	+2.98
World index from Morgan Stanley Capital Corp.			

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1. *Journal of the American Medical Association*, 1997; 278: 1039-1044.

New International Bond Issues

Compiled by Laurence Desvillettes

Issuer	Amount (millions)	Mat.	Coups %	Price and week	Terms
FLUATING RATE NOTES					
FERARI 2	\$330	1993	3/16	100.00	Over 3-month Libor. Serial redemption to start in 1992. Fees 0.10%. Denominations \$100,000.
Cariplo	ECU 50	1989	—	100	Coupon, paid in NZ dollars, will be pegged to 3-month NZS bank bill and will apply to 3% of principal amount. Exchange rate set at 0.52/0.07 ECU per dollar. Noncallable. Fees 0.25%. Denominations 500,000 ECU.
FIXED-COUPON					
Hydro Resources & Development	\$12	1992	5	100	Minimum amount \$12 million, maximum \$17.4 million. Noncallable. Redeemable at maturity at 105. Exchangeable into gold at \$340 per ounce.
Inter-American Development Bank	DM 200	1997	6	100	99.20 Noncallable. Fees 2%.
Walford Building Society	£ 50	1992	8 1/4	101 1/4	99.25 Coupon will be 8 1/4% until 1989, and 0.175% over 3-month Libor thereafter. Noncallable. Fees 1 1/2%.
Nippon Credit Bank Finance	£ 50	1992	9 1/4	101 1/4	99.63 Noncallable. Fees 1 1/2%.
Prudential Finance	£ 150	2007	9 1/4	100 1/2	98.25 Noncallable. Fees 2 1/2%.
ASUK-GER Finance	ECU 100	1992	7 1/4	101 1/4	100.00 Noncallable. Fees 1 1/2%.
Banque Française du Commerce Extérieur	ECU 100	1994	4 1/4	100	97.70 Noncallable. Each 1,000-ECU note with one 3-year warrant exercisable into gold at \$210 per ounce. Fees 1 1/2%.
Ford Credit Canada	CS 100	1992	10	101 1/4	99.50 Noncallable. Fees 1 1/2%.
Montreal City	CS 60	1992	10	101 1/4	100.00 Noncallable. Fees 1 1/2%.
Bayernhypo Finance	Aus 35	1989	14	101 1/4	100.00 Noncallable. Fees 1 1/2%.
Commerzbank Overseas Finance	Aus 75	1989	14 1/4	101 1/4	100.28 Noncallable. Fees 1 1/2%.
Commonwealth Bank of Australia	Aus 75	1994	14	101 1/4	98.88 Noncallable. Also 75,000 one-year warrants, priced at Aus\$22 each, exercisable at par into one identical bond. Warrants ended the week of Aus\$26. Fees 1 1/2%.
Credit Suisse Finance	Aus 75	1989	14 1/4	101 1/4	100.63 Noncallable. Fees 1 1/2%.
Deutsche Bank Finance	Aus 100	1992	13 1/4	101 1/4	100.50 Noncallable. Fees 2%.
GMAC Australia Finance	Aus 50	1992	13 1/4	101 1/4	99.38 Noncallable. Fees 2%.
State Bank of South Australia	Aus 50	1992	14 1/4	101 1/4	99.63 Redeemable every year at par when coupon will be reset. Fees 1 1/2%.
Ford Motor Credit	¥ 14,000	1992	4 1/4	101 1/4	99.38 Noncallable. Fees 1 1/2%.
Hydro Quebec	¥ 15,000	1994	4 1/4	101 1/4	99.63 Noncallable. Fees 1 1/2%.
Italy	¥ 30,000	1991	4 1/4	101 1/4	99.88 Noncallable. Fees 1 1/2%.
Oesterreichische Kontrollbank	¥ 25,000	1992	4 1/4	101 1/4	99.63 Noncallable. Fees 1 1/2%.
Union Bank of Finland	¥ 10,000	1997	4 1/4	101 1/4	99.13 Noncallable. Fees 2%.
Victoria Public Authority Finance	¥ 10,000	1992	4 1/4	101 1/4	99.88 Noncallable. Fees 1 1/2%.
EQUITY-LINKED					
Aluminum Co. of America	\$150	2002	open	open	98.50 Coupon indicated at 6 to 6 1/2%. Callable at 103 in 1992. Convertible at an expected 23 to 28% premium. Fees 2 1/2%. Terms to be set May 14.
McDonald's	\$ 85	1994	2 1/4	100	100.00 Each \$5,000 note with 60 three-year warrants exercisable into company's shares at \$85 per share. Fees 2 1/2%.
Okamura	\$ 70	1992	2 1/4	100	97.00 Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 24 1/2% premium. Fees 2 1/2%. Terms to be set May 15.
Sapporo Breweries	\$100	1992	open	100	106.00 Coupon indicated at 2 1/2%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 22 1/2% premium. Fees 2 1/2%. Terms to be set May 14.
Yamato Transport	\$200	1992	2	100	98.00 Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,238 yen per share and at 140.10 yen per dollar. Fees 2 1/2%.
WARRANTS					
British Land	0.075	12 mos	—	£ 16	— Call warrants exercisable at par into a 10 1/4% bond due 2012.
Morgan (I.P.)	0.075	12 mos	—	£ 13 1/4	— Call warrants exercisable at par into a 9% noncallable bond due 1994.

Prices Rise On Dollar's Firmness

New York Times Service

NEW YORK — The credit market, relieved at the outcome of the U.S. Treasury refunding, continues to gain strength from the dollar's recent firmness against the yen.

With the market no longer concerned about the degree of Japan's

new participation at the \$29 billion

refunding, bond prices climbed

and yields dropped on Friday.

Attention was focused on the

new bellwether Treasury long-term

bond, the 8.75 percent issue of

2017, which was auctioned Thurs-

day at an average yield of 8.76

percent.

In late trading on Friday, the

new long-term bond, dated May

15, was offered on a when-issued

basis at 101 25/32, for a yield of

about 8.58 percent. The outstanding

long-term bond, the 7.5 percent

issue of 2016, soared 7/32, to 88

10/32, and a yield of 8.59 percent,

unchanged on the week.

The new 6.75 percent notes of

1990, auctioned on Tuesday at an

average yield of 7.91 percent, were

offered late Friday at 100 9/32, up

9/32, to yield 7.77 percent. The

new benchmark long-term notes,

the 8.5 percent issue of 1997, which

were auctioned Wednesday at an

average yield of 8.52 percent, rose

15/32, to 100 18/32, Friday for a

yield of 8.42 percent.

The decline in unemployment in

April and the rise in new nonfarm

jobs, reported by the government

on Friday, did not unsettle the

bond market, which normally

views any bullish economic news

with apprehension.

William V. Sullivan Jr., senior

vice president at Dean Witter

Reynolds, said the bond market

chose to ignore the employment

gains because it helped strengthen

the dollar and thus the prices of

fixed-income securities.

"This tells us how the dollar's

health now dominates the bond

market," he said.

Philip Braverman, chief econo-

mist at the Treasury securities divi-

sion of Irving Trust Co., said that,

while the Japanese did participate

in the refunding auctions, "it was

only after some strong arm-twist-

ing by their Ministry of Finance."

AT&T Plans to Tap Euro-CP Market

By Carl Gewirtz

International Herald Tribune

PARIS — AT&T has announced plans to tap the Euro-commercial paper market starting later this month, aiming to borrow up to \$200 million for periods of up to six months.

Company officials said last week that the program was aimed at expanding its investor base and diversifying its source of funds while supporting the company's expanded international activities.

At end-April, AT&T had \$370 million outstanding in the U.S. CP market, while its subsidiary, AT&T Credit Corp., had \$140 million outstanding.

The Euro-CP program is expected to be activated on May 18 with Citicorp, Morgan Stanley and Swiss Bank Corp. acting as dealers. The paper has been rated P-1 by Moody's and A-1 by Standard & Poor's, the highest ratings on short-term debt.

Another new entry to the Euro-CP market may be the New Zealand Dairy Board. In what looks like a preparatory move to tap the CP market, the borrower is seeking a \$250 million facility against which it can request short-term advances or bankers' acceptances in dollars or sterling. Banks are being asked to underwrite only \$100 million, for which they will earn an annual facility fee of five basis points, or 0.05 percent.

The cost of drawing on the facility is set at 6 1/4 basis points over the London interbank offered rate and this rises a further 1/4 basis point if more than half the amount is used.

In the syndicated credit sector, the government-owned Korea Electric Power Corp. entered the market with a currency option loan, while the government and most of its agencies were busy prepaying loans and renegotiating lower terms on existing debt.

Kepco thus becomes the first Asian borrower to adopt a formula used previously by Greece and Belgium to achieve a very low borrowing cost. The formula consists of the borrower selling an option to convert the dollar loan into, in this case, a loan denominated in yen.

Bankers Trust, which is organizing the loan, has also purchased the option, which it can either keep on its book or sell to others. The conversion level will be fixed at the prevailing dollar/yen exchange

rate when the loan agreement is signed.

At the end of the fourth year, the option holder can elect to convert the loan into yen. For lenders, this means the dollar loan would be repaid and replaced by a loan in yen at the contracted yen/dollar exchange rate. Interest payments will be identical.

If the yen has appreciated, the option holder would make a profit by pocketing the difference between the contracted fixed exchange rate and the then prevailing market rate for the yen. In other words, the size of the yen loan would increase when expressed in dollar terms and that increase would be the option holder's profit.

In exchange for selling this currency option, Kepco is paying a record low interest on its \$100 million, 10-year loan of 1 1/4 percentage points below Libor.

Bankers Trust, from the income earned by selling the option or itself assessing the intrinsic value of the contract, is topping up the payment to the lenders. Banks participating in the loan will earn 1/4 point over Libor for the first five years, during which time there will be no amortization of principal, and 1/4 point over Libor thereafter as the size of the loan outstanding begins to be repaid.

Part of the loan, as yet undetermined, is expected to be extended by banks benefiting from tax-sparing agreements with Korea, notably in Japan and Belgium. The actual interest paid to these lenders will be lower, more like 1/4 point over Libor.

Originally, Kepco was expected to structure the entire operation as a tax-spared loan, but the interest cost to the borrower would have been much higher, at around Libor. In return for the lower interest on the currency option loan, Kepco runs a risk of having to pay much more in dollars to redeem the loan than it originally borrowed, a risk that it may choose to hedge.

Citicorp is changing these borrowers to the market. Portugal's electricity utility, Electricidade de Portugal, is renegotiating lower terms and extending maturities on three loans taken out in the early 1980s by arranging a new eight-year credit for \$350 million. The

move is also regarded as a first step toward liberalizing the foreign exchange system by reducing central bank control and gradually scrapping the multiple exchange rates in force.

Under the proposal, a committee of eight banks will set a daily rate for the Egyptian pound according to supply and demand. The committee met Sunday at its headquarters at the Banque Misr building but a rate was not announced.

Mohammed Ali Hafez, chairman of Banque Misr, said in an interview Saturday that the pound would initially be floated at the current free market rate of about 2.15 to the U.S. dollar.

The exchange rates now in use are an official bookkeeping rate of 0.70 pounds to the dollar, a floating commercial bank rate of about 1.35 pounds to the dollar and a little-used rate of 0.40 pounds applied to trade with the Soviet bloc.

TF-1 Offering Expected in June

PARIS — The denationalization of France's TF-1 television network is likely to be completed with a public share offering at the end of June, the channel's new operator, Francis Bouygues, told a TF-1 interviewer Sunday.

A consortium headed by Mr. Bouygues last month paid 3 billion francs (\$500 million) for a 50 percent operating stake in the network, with 40 percent of TF-1 to be sold to the public and 10 percent to staff.

Mr. Bouygues said the public would be offered the shares at a 30 to 40 percent discount on the price paid by the consortium. The government's denationalization committee has valued the entire network at 4.5 billion francs.

BONDS: Doubts on Dollar

(Continued from first finance page)

coupon of 4 1/4 percent. Terms on both were considered unattractive.

The Australian dollar sector remained very active. A decline in Australian interest rates and a good performance by the currency is creating a favorable environment. As usual, given the strong demand from West Germany for such high-coupon paper, issues by German entities fared the best. These included Deutsche Bank, Bayernhypo and Commerzbank, as well as Credit Suisse.

The equity-linked market was a mixed bag. McDonald's increased the size of its warrant offering to \$85 million from the \$75 million initially indicated. It ended the week trading a par. Sapporo Breweries, also offering warrants to buy shares, ended the week at a 6 percent premium.

ANNOUNCEMENT

The Board of Directors of Hochtief S.A., which met April 28, 1987 under the chairmanship of Jean-Luc LAGARDE, closed the company accounts, noted the consolidated Group results for the 1986 fiscal year, and confirmed the previously published announcement.

The Group share of consolidated earnings was FF215.8m, prior to appreciation and depreciation, as against FF169.5m for the previous year (an increase of 27.3%), and FF405.8m after appreciation and depreciation, compared with FF168m in 1985.

1987 will see a further significant increase in Group earnings.

The March 30 meeting of the Board of Directors received the resignation of Mr. Jean DEPLASSIEUX and co-opted Mr. Jean-Maxime LEVEQUE, President of Crédit Lyonnais.

Renunciation of this nomination will be proposed at the Ordinary General Meeting to be held on June 18, 1987.

The Board will propose to the General Meeting the fixing of a dividend of FF24.50 per share, accompanied by a tax credit of FF12.25, compared with FF21 and FF10.50 respectively, for the previous trading year.




Irving Berlin, now 99, whose sophisticated songs span the emotional terrain of the United States, in 1923 (left) and 1977.

Irving Berlin, now 99, whose sophisticated songs span the emotional terrain of the United States, in 1923 (left) and 1977.

The quality that Kern recognized as the essence of Berlin is a faith in the American vernacular so profound that today the composer's best-known songs seem indivisible from the United States' history and self-image. Where the songs of Kern, George Gershwin, Richard Rodgers and Cole Porter brought together Afro-American, Latin American

In today's music industry parlance, "Alexander's Ragtime Band" would be regarded as the prototypical "crossover" hit in its blending of the fumes of black

"There's No Business Like Show Business," from the 1946 show "Annie Get Your Gun," may be the ultimate uptempo show tune. Its tough wisecracking lyrics are as tersely all-knowing as its melody, which is nailed down in brassy syncopated lines that

"Let's Face the Music and Dance," written for the 1936 Fred Astaire-Ginger Rogers film "Follow the Fleet," is almost Cole Porter-like with its flowing, silky melody, which begins in a minor key and modulates dramatically into a major key and then relapses. Rarely have Berlin's melodies and lyrics contained such ominous undercurrents. Indeed, the song seems to anticipate the coming world war with a mixture of anxi-

Berlin's ultimate song to express the American mood was "God Bless America," which he first performed on Armistice Day in 1938 by Kate Smith on a radio broadcast, and it quickly went on to become an unofficial national anthem. This stirring pop march, composed at the end of the Depression, enshrines a strain of official patriotism intertwined with a religious faith that runs deep in the American psyche. Patriotic razzle-dazzle, sophisticated melancholy and humble sentiment.

Berlin songs span the emotional terrain of America with a thoroughness that others may have

ON June 5, 1978, Time magazine published a new idea of implanting a fertilized egg in the womb of a woman different from the one whose conception took place: "The egg remained strong, ... Despite the fact that the sperm, some have already opted for abortion. Thus the phrase, with this new idea, the potential legal problems are raised. The Supplement to the Oxford Dictionary of Law took that Time usage as the basis for its definition of a woman whose pregnancy arises from a fertilized egg in her womb of a fertilized egg in another woman." But that, of course, is the case of Mary Beth White, who was artificially inseminated.

magazine wrote about a zygote egg or embryo in demand for surrogates as a potential legal problem for surrogate mothers. The meaning, was started, as soon became real. The English Dictionary is for its definition: "A zygote is the implantation of an egg or embryo in the uterus. Of course, does not apply ahead, whose own egg

over, if she provides no egg, she is a *stepmother*, and would probably prefer the title to *foster* (from Old English for 'to foster'). If she has custody, she can be a *legal mother*.
 If her husband is remarried, his new wife is his *stepmother*, which still carries the connotation: as Mary Beth Whitehead's failed custody attempt. "I do not care" as a stepmother. I want to be in Merriam-Webster's Ninth New International Dictionary defined as "1: a child of one's new spouse from a former marriage 2: one that fosters or cares for another child or attention." *Step* is used to refer reciprocally to children of a stepparent, and *step-* is more inclusive than *step-* implies being related by blood through marriage.

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